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15 January 2024

Response to the Public Consultation on Modernising Ireland's Administration of VAT - Real-time Digital Reporting and Electronic Invoicing

Dear Sir/Madam

The Irish Tax Institute welcomes the opportunity to contribute to Revenue's public consultation on Modernising Ireland's Administration of VAT - Real-time Digital Reporting and Electronic Invoicing. Revenue's consultation is in the form of a questionnaire which has been divided into two parts:

- Part A: General Consultation Questions
- Part B: Business Context

To help us formulate the Institute's response to this consultation, we undertook a survey of our members in November 2023[1] to gather feedback on Revenue's proposal. We received responses from across the full membership of the Institute, including members working in accounting/tax practices (large and small), the legal sector, industry and government agencies.

[1] Irish Tax Institute Modernising Ireland's Administration of VAT: Public Consultation on Real-time Digital Reporting and Electronic Invoicing Survey 2023, November 2023 - 58 respondents.

We have identified in this letter nine key considerations for the implementation of VAT Modernisation or VMOD, based on our members' feedback, further details of which are set out in the body of this submission.

Please note that the Institute has also responded directly to the online consultation questionnaire via Revenue's website. For completeness, we have included our responses to the specific consultation questions in the Appendix to this letter.

Background to Revenue's Consultation

The proposal to modernise Ireland's administration of VAT and introduce real-time digital reporting requirements (DRR) and eInvoicing is broadly welcomed. Digitalising the collection of tax and data has increasingly become a feature of tax administration in Ireland and abroad. Ireland successfully introduced the PAYE Modernisation programme in 2019, which the consultation document highlights as a frontrunner among digital transformations in tax administration. Revenue has signalled for some time that the introduction of a well-designed and appropriately phased programme of VAT Modernisation is a priority on its path to further improve the ease and convenience of tax compliance for businesses.

Many other countries within the EU have introduced, or plan to introduce DRR and/or mandatory eInvoicing for VAT, providing international experience from which Ireland can learn. The VMOD proposal should reduce the incidence of errors, underpayments, and non-compliance, while also helping to counteract VAT fraud and close the VAT Gap. However, the proposal is likely to present some challenges for small and medium-sized enterprises (SMEs) and micro-sized Irish businesses. Therefore, an appropriate lead-in time and extensive consultation with various stakeholders will be essential to successfully implement VMOD.

Discussions on the European Commission's VAT in the Digital Age (ViDA) proposal[2] which aims to introduce mandatory EU-wide DRR and eInvoicing from 2028, continue at EU level. In brief, the ViDA proposal consists of three key parts: (i) Digital Reporting Requirement (DRR) and eInvoicing; (ii) the Platform Economy; and (iii) the Single VAT Registration. The proposal for DRR and eInvoicing comprises the introduction of eInvoicing and a two-working day digital reporting requirement for all intra-Community business supplies on a transaction-by-transaction basis with effect from 1 January 2028.

We understand a decision on the ViDA proposal is awaited and an update is expected at the June 2024 meeting of the Economic and Financial Affairs Council (ECOFIN). From 1 January to 30 June 2024, Belgium will hold the Presidency of the Council of the European Union and has confirmed that *"priority will also be given to the 'VAT in the Digital Age' proposal"* in its Programme for the Belgian Presidency.[3]

A decision to implement an EU-wide DRR has not been reached to date given the pre-existing unilateral and uncoordinated DRRs already in place within the EU and the

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[2] Proposal for a Council Directive amending Directive 2006/112/EC as regards VAT rules for the digital age https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52022PC0701

[3] https://belgian-presidency.consilium.europa.eu/media/3kajw1io/programme_en.pdf

Commission's assertion that all three parts of the ViDA proposal must be agreed together. We understand that Ireland's position to date has been to await an agreed standard form of DRR and eInvoicing to apply throughout the EU before implementing domestic requirements.

The ViDA proposal for real-time DRR and eInvoicing will apply to every business that engages in trade between Member States in the EU, no matter the frequency, or the volume. However, regardless of the decision made at EU level, we understand that Revenue is keen to implement domestic real-time DRR and eInvoicing.

As a first step in the VMOD project, Revenue is considering a reform of Ireland's domestic VAT business-to-business (B2B) and business-to-government (B2G) reporting, supported by eInvoicing, to make it easier and seamless for businesses to comply with their VAT reporting obligations. The consultation document states that aligning the reporting and compliance requirements more closely with the normal operations and financial processes of a business should increase the accuracy of returns and reduce the risk of errors and omissions. The consultation document also notes that the development of domestic eInvoicing in Ireland would support the digital transformation across the economy and align with the Government's ambition for "The Digital Ireland Framework".[4]

Sufficient time for consultation, in advance of any agreement at EU level, will be key, in particular consultation with accounting and eInvoicing software providers. Whilst there is merit in adopting a 'wait and see' approach to understand what form the EU system may take, there is no guarantee that an agreement on the ViDA proposal will be reached in June of this year or if the 2028 timeline for implementation of DRR and eInvoicing will be deferred. Nonetheless, the consultation document clarifies that any domestic VAT B2B and B2G real-time DRR and eInvoicing regime will need to align appropriately with any changes proposed at EU-level for intra-Community transactions to ensure coherence and minimise compliance costs.

Key Considerations for the Implementation of VMOD

There is limited detail in the consultation document as to how real-time DRR supported by eInvoicing might operate in Ireland. In the absence of this detail, we have set out below what the Institute believes are the key considerations for the design and implementation of any new VAT regime. As mentioned above, we surveyed our members to help inform our response and we have reflected this feedback in the sections below.

1. Revenue Engagement

Consultation with stakeholders and industry focus groups will be critical to the successful implementation of DRR and eInvoicing to help inform decisions and ensure that all issues are fully considered. We understand Revenue is engaging with Enterprise Ireland and the Department of Enterprise, Trade and Employment (DETE) to develop supports for businesses with the digital transformation. Last year, DETE ran 'Building Better Business'

[4] https://www.gov.ie/en/publication/adf42-harnessing-digital-the-digital-ireland-framework/

sessions across the country for SMEs which Revenue attended to raise awareness about the VMOD project.

The Institute is actively engaging with Revenue on the VMOD project at a subgroup of the TALC Indirect Taxes Sub-committee (i.e. the TALC VMOD subgroup). We would urge Revenue to continue with this productive engagement with representative bodies via TALC. In addition, we believe wider engagement and extensive discussions will be necessary across all business sectors to ensure comprehensive feedback is compiled from as many stakeholders as possible.

Consultation with accounting and eInvoicing software providers will be essential to ensure the design of the real-time DRR and eInvoicing regime will work for all businesses; align with the changes proposed at EU-level for intra-Community transactions and minimise compliance costs.

Cross-stakeholder engagement involving businesses, tax advisers, third-party and Revenue software and systems developers would be important at an early stage, to ensure that the needs of businesses are fully understood before work advances on the design of new software and systems.

2. Phased introduction with an appropriate lead-in time

Revenue has historically applied a phased approach to the implementation of new mandatory filing requirements, such as mandatory e-filing of tax returns and the requirement for certain corporates to file financial statements in iXBRL format. A phased approach should be continued with the introduction of any new real-time DRR and eInvoicing regime.

A phased implementation would ensure a smoother transition to real-time DRR and eInvoicing (i.e., larger businesses first and then smaller businesses complying at a later date). For example, we understand that France is phasing in all large businesses for DRR and eInvoicing first and then phasing in smaller businesses at a later date. However, all businesses must be e-enabled when DRR and eInvoicing goes live so that a small business can receive an eInvoice from a larger business. We believe Ireland should implement a phased approach similar to what is being adopted in France.
Indeed, Revenue could also consider having an “opt in” period with a form of safe harbour protection for SMEs prior to real-time DRR and eInvoicing becoming mandatory. We believe such an approach could help encourage early adoption.

Undoubtedly, an appropriate lead-in time is essential to allow businesses to test systems and work with their various system providers. The feedback we have received to our survey suggests that there is general support for the proposal to introduce real-time DRR for B2B and B2G transactions. Members noted experiences of how successful DRR has been in other countries.

Larger businesses with a larger volume of cross-border transactions or a more streamlined B2B / B2G supply chain and sophisticated ERP systems are likely to adapt to the change more quickly compared with smaller paper-based businesses. It is understood that a move to real-time DRR is inevitable in the digital age and members noted that real-time DRR should assist taxpayers remaining tax compliant.

However, for smaller domestic businesses, significant changes to their systems and processes will be required to comply with the proposed model. In particular, concerns have been raised by our members regarding the initial difficulties that will be faced by small businesses to implement new systems. Having an appropriate long lead-in time would allow smaller businesses to fully address the implementation challenges of real-time DRR and eInvoicing.

In addition to the concerns raised about small businesses, members also noted there is likely to be a knock-on impact on smaller practices, in particular when considering the workload involved to meet existing tax and payroll reporting obligations, together with the new Enhanced Reporting Requirements (ERR) and the change to the collection mechanism for tax on share options to the PAYE system (both of which came into effect at the start of 2024). Therefore, an appropriately long lead-in time for VMOD would further assist practitioners in their efforts to support small businesses comply with the new VAT regime.

Consideration should also be given to the Revenue services and supports that small practices will need to assist their clients to comply with any new requirements, as informed by the stakeholder engagement process.

3. Make testing available in advance of implementation

In order to ensure certainty for businesses, testing should be made available well in advance of implementation of real-time DRR and eInvoicing. It is crucial that the system implemented for domestic transactions will also work for cross-border transactions to avoid further costs and systems changes down the line.

At a meeting of the TALC VMOD subgroup in December, Revenue confirmed its preference for as close to real-time reporting as possible (i.e. reporting digitally to Revenue when the invoice is issued). However, feedback we received suggests that some businesses may not use one unique system to capture all elements of invoicing and that many businesses currently work with more than one financial system. There is a concern that businesses will encounter difficulties reporting in real-time where there is an element of manual review required at the time the invoice issues

Revenue has indicated that it believes over 50% of small businesses are currently using well-known software packages and that the ERP systems should be able to issue an eInvoice and report in real-time digitally to Revenue. Engagement with software developers in this regard will be essential and the availability to test the relevant systems well in advance of implementation would help to ensure a smooth transition to VMOD.

Furthermore, Revenue clarified at the December TALC meeting that it does not intend to implement any pre-clearance for eInvoicing, which is welcome and in line with the Commission's ViDA proposal. However, Revenue stated it would expect some form of verification of the information on the invoice, as it wants to receive 'good data' to facilitate for more streamlined compliance interventions.

While the concept of eInvoicing is not entirely new to Ireland's VAT regime (i.e. all public bodies are required to accept an eInvoice from a supplier if that supplier chooses to issue one since April 2019), introducing mandatory eInvoicing for domestic B2B and B2G transactions represents a major change to Ireland's VAT regime, in particular for small businesses. Directive 2014/55/EU[5] obliges all public bodies to be able to receive and process eInvoices in accordance with a common European Standard. The European Commission proposes that this standard on eInvoicing (EN 16931[6]) will apply to eInvoices issued in relation to intra-Community transactions and that this standard will also apply to the issuance of domestic eInvoices.

Feedback from our members suggests that there are many situations where specific wording is required for domestic B2B invoices, such as in the case of the margin scheme for VAT, VAT 56B authorisation, Relevant Contracts Tax (RCT)and property transactions. In addition, there are many industry practices in the finance and leasing area (e.g. a Hire Purchase agreement VAT invoice, annual leasing VAT invoices etc.) that need to be considered. Setting up suppliers on purchasing systems can have long lead times/risk management requirements.

Invoicing changes should also recognise other relevant legislation (and regulation) that deal with payment claims and the supporting documentation for such claims. For example, the Construction Contracts Act 2013[7] sets out the process for claims and payments in the construction industry. Any new e-invoicing changes need to align with, and not over-complicate, existing commercial practice.

Countries will typically amend their domestic VAT legislation to allow for e-invoicing and digital reporting criteria and care will need to be exercised when amending VAT legislation, particularly in respect of credit notes. The tax invoice and adjustment note (credit and debit note) criteria need to be clear and should not change frequently. Ideally, they should be locked at the outset after consultation because ongoing criteria changes will give rise to challenges and increase costs for businesses.

For example, in New Zealand, the GST Act was recently amended and new definitions of tax invoice and credit/debit note were introduced as a preliminary step to future e-invoicing. The legislative drafting in New Zealand was imperfect and required several remedial amendments over time.

Specifically, the New Zealand "credit note" definition was too rigid and stipulated that a credit note must reference an earlier specific tax invoice which proved impractical. Businesses have different ways to issue credit notes (e.g. cancelling incorrect and issuing new invoices, issuing a credit note for the difference, issuing one credit note for a series of earlier supplies). Therefore, any new credit note criteria needs to be flexible and allow for different business practices.

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[5] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0055
[6] https://ec.europa.eu/digital-building-blocks/sites/display/DIGITAL/EN+16931+compliance
[7] https://www.irishstatutebook.ie/eli/2013/act/34/section/4/enacted/en/html#sec4

Certainly, eInvoicing will be a significant change where a business currently issues manual invoices and uses a number of different systems. Therefore, making testing available in advance of implementation will be crucial and consideration should be given to piloting the regime for a year in advance of becoming fully operational. This would give both businesses and Revenue sufficient time to fully test and develop confidence in its operation.

4. Supports for businesses implementing real-time DRR and eInvoicing

As mentioned, the move to real-time DRR and eInvoicing will be a substantial adjustment for smaller businesses who are accustomed to paper-invoicing. The cost involved for small businesses to invest in new technology, new staff and increased professional fees will need to be factored into the decision-making process to implement real-time DRR and eInvoicing.

The cost to businesses on transitioning to a new reporting system or upgrading existing technology will need to be carefully considered when deciding when and how to implement real-time DRR and eInvoicing. In particular, Revenue will need to consider instances of one-off transactions, such as the transfer of a business or group reorganisations.

Financial assistance will be required for any software changes, both financially and in terms of training on new systems or difficulty in transitioning to new software. Any system upgrade can be onerous and time-consuming and often require the recruitment of additional staff, which is an area that all employers are encountering difficulties at present.

Businesses will need support to adapt their technology to support mandatory eInvoicing and smaller companies will need considerable assistance to implement an eInvoice system. While there is complexity and costs involved in setting up an eInvoicing system, feedback from our members acknowledges that there will also be a long-term benefit.

We understand Enterprise Ireland and DETE have set up the Digital Transition Fund[8] to drive transformative digitalisation of enterprise in Ireland, in particular amongst SMEs and has been allocated funding of €85 million during the period to 2026. This fund will be crucial for SMEs transitioning to digital technology to reach new markets and improve their productivity and competitiveness. Some SMEs are still not fully e-enabled and real-time DRR and eInvoicing will make it even more difficult for them to participate in contracts from government bodies. Therefore, having supports available for these smaller businesses to become e-enabled will be an imperative.

Feedback from our members highlights alignment across the EU would be extremely welcome in order to avoid further costs to implement changes to systems further down the line.

5. Flexibility to cater for differing business models

In deciding the timeline for submission of the data, Revenue will need to consider the various business models where invoices are slow to issue. For example, if a business engages

[8] https://www.enterprise-ireland.com/en/news/tanaiste-and-ministers-troy-and-english-announce-fund

services of outsourcing, there are many different elements which can cause a delay as to when the invoices are received.

Separately, timing differences can occur between when a supplier reports the outbound sale and when the recipient reports the inbound purchase. It can take a significant amount of time for inbound invoices to work their way through approvals and AP processes. Therefore, the reporting system should not impose stringent timelines for recipients to report the purchase invoices. Revenue will need to liaise with various industries/sectors to understand the timeline of when an invoice is agreed and when purchase orders are received etc.

6. Consideration for businesses that also have B2C transactions

We understand that a public consultation on moving Ireland's business-to-consumer (B2C) transactions into the realm of real-time DRR supported by eInvoicing is on Revenue's workplan for 2024. While an appropriate lead-in time is essential to introduce real-time DRR for B2B and B2G transactions, it may be worth exploring the merits of including B2C transactions at the same time of implementation of real-time DRR for B2B and B2G transactions. We understand from members' feedback that some businesses with B2B and/or B2G transactions may also have B2C transactions and therefore, these businesses would in essence have to operate two different reporting systems.

The customer profile of the businesses that responded to our survey included an even mixture of the customer profile options available, with 37.5% selecting 'all B2B customers', 25% of respondents selecting a 'mixture of all three-B2B, B2C and B2G', and 18.75% selecting a 'mixture of B2B and B2C'. Clearly from the responses we received, a large proportion of respondents have a mixed customer profile which include B2C customers.

7. Learnings from other countries that have implemented real-time DRR and eInvoicing

Some feedback we have received from our members suggests that the HMRC process in the UK can be unreliable from a systems' perspective as it requires constant updates to accounting packages and even then can still remain unreliable. In addition, third-party software providers require intervention frequently for connections to be restored. The feedback highlights that the facility to complete the return online directly is much more efficient. The feedback also suggests that bridging software is required in many cases to report to HMRC and this can become costly for taxpayers.

Other feedback we received highlighted that for intra-Community transactions, a third-party vendor could help to meet the requirements in each country. However, the planning and implementation phases are extremely costly for businesses as teams need to be resourced and project fees are incurred from the third-party vendor each time a country decides to implement some form of real-time reporting. For MNCs with multiple ERPs, this can be very expensive.

We have also received feedback that there may be General Data Protection Regulation (EU GDPR) issues to consider in this regard.

8. A well-planned communication and support strategy

A well-planned strategy for communicating with stakeholders and a package of Revenue supports will be necessary. Businesses will need time to prepare for the real-time regime including investment in IT, training of staff and the revision of existing invoicing procedures. The communication plan should commence at least one year before the regime becomes operational.

9. Suggestions for including information prompts on the VAT return

Clear guidance for each section of the VAT Return will be important, with sufficient examples for both large complex businesses and small businesses. It would be beneficial to have a prompt for an overall check of the total VAT amounts to ensure that the figures can be checked back to the business's system.

The VAT Return should provide for the inclusion of all necessary boxes/formats for different types of transaction reporting - similar to the existing VAT Return of Trading Details (RTD). Once businesses are familiar with the options, then the return could be more streamlined.

The availability of a comment box could provide assistance in the initial stages to allow filers to include any comments on particular line items which may reduce the need for further engagement through MyEnquiries.

Some prompts around intra-EU transactions and Imports/Exports and Postponed Accounting would be particularly helpful for smaller businesses. Scope to separate new sections on the form should also be considered so that only businesses which need to address a particular section of the form, are required to complete it. In this way, the VAT Return could be made simpler for smaller businesses to complete.

Some feedback suggests businesses are struggling to understand all the reverse charges provisions for subcontractors, intra-EU transactions, services outside EU etc. The system needs to be simplified and pre-filling data, for example from the RCT portal, would be useful.

In addition, there should be clear guidance on how corrections or errors should be dealt with and reporting requirements should be simplified where possible to reduce the administrative and financial burden for businesses.

Conclusion

An appropriate lead-in time to allow businesses test systems and work with their various system providers will be critical. We believe that thorough guidance, together with supporting frequently asked questions (FAQs) will need to be made available well in advance of the implementation date.

Moreover, businesses will need to secure a significant budget and extra resources to implement real-time DRR and eInvoicing. Therefore, we believe the key to a successful implementation of VMOD will be clear timelines and guidance for building the system requirements, together with ongoing extensive consultation and engagement with stakeholders.

The Institute will continue to engage with Revenue constructively at the TALC Indirect Taxes Sub-committee and TALC VMOD subgroup on the implementation of real-time DRR and eInvoicing. Please contact Anne Gunnell at agunnell@taxinstitute.ie or (01) 6631750 if you require any further information in relation to this submission.

Yours sincerely

Tom Reynolds

Tom Reynolds
Institute President

Appendix

Copy of ITI responses submitted to Revenue's online questionnaire

Modernising Ireland's Administration of Value Added Tax

We appreciate your time is valuable but we do want to receive and consider all your views, suggestions and possible concerns.
Whilst it is a short questionnaire, we encourage you to answer all questions and do recommend you allow ample time to complete all the questions. If a question is not applicable to you, please insert N/A.
All responses to this Questionnaire will be treated in the strictest confidence and only the answers to Section A may be released under the Freedom of Information legislation.

Section A - General Consultation Questions

Business to Business (B2B) and Business to Government (B2G)

Revenue is keen to reform Ireland's domestic VAT B2B and B2G Reporting system so that it is easier and seamless for businesses to comply with their VAT reporting obligations. Aligning the reporting and compliance requirements more closely with the normal operations and financial processes of the business, will increase the accuracy of returns and reduce the risk of errors and omissions.

1. What are your views on the proposal to introduce real-time reporting for B2B and B2G transactions? *

The Irish Tax Institute welcomes the opportunity to contribute to Revenue's public consultation on Modernising Ireland's Administration of VAT - Real-time Digital Reporting and Electronic Invoicing. The proposal is broadly welcomed by our members.

Many other countries within the EU have introduced, or plan to introduce DRR and/or mandatory eInvoicing for VAT, providing international experience from which Ireland can learn. The VMOD proposal should reduce the incidence of errors, underpayments, and non-compliance, while also helping to counteract VAT fraud and close the VAT Gap. However, the proposal is likely to present some challenges for small and medium-sized enterprises (SMEs) and micro-sized Irish businesses. Therefore, an appropriate lead-in time and extensive consultation with various stakeholders will be essential to successfully implement VMOD.

Discussions on the European Commission's VAT in the Digital Age (ViDA) proposal which aims to introduce mandatory EU-wide DRR and eInvoicing from 2028, continue at EU level. The proposal for DRR and eInvoicing comprises the introduction of eInvoicing and a two-working day digital reporting requirement for all intra-Community business supplies on a transaction-by-transaction basis with effect from 1 January 2028.

We understand a decision on the ViDA proposal is awaited and an update is expected at the June 2024 meeting of the Economic and Financial Affairs Council (ECOFIN). From 1 January to 30 June 2024, Belgium will hold the Presidency of the Council of the European Union and has confirmed that "priority will also be given to the 'VAT in the Digital Age' proposal" in its Programme for the Belgian Presidency.

A decision to implement an EU-wide DRR has not been reached to date given the pre-existing unilateral and uncoordinated DRRs already in place within the EU and the Commission's assertion that all three parts of the ViDA proposal must be agreed together. We understand that Ireland's position to date has been to await an agreed standard form of DRR and eInvoicing to apply throughout the EU before implementing domestic requirements.

The ViDA proposal for real-time DRR and eInvoicing will apply to every business that engages in trade between Member States in the EU, no matter the frequency, or the volume. However, regardless of the decision made at EU level, we understand that Revenue is keen to implement domestic real-time DRR and eInvoicing.

As a first step in the VMOD project, Revenue is considering a reform of Ireland's domestic VAT business-to-business (B2B) and business-to-government (B2G) reporting, supported by eInvoicing, to make it easier and seamless for businesses to comply with their VAT reporting obligations. The consultation document states that aligning the reporting and compliance requirements more closely with the normal operations and financial processes of a business should increase the accuracy of returns and reduce the risk of errors and omissions. The consultation document also notes that the development of domestic eInvoicing in Ireland would support the digital transformation across the economy and align with the Government's ambition for "The Digital Ireland Framework".

Sufficient time for consultation, in advance of any agreement at EU level, will be key, in particular consultation with accounting and eInvoicing software providers. Whilst there is merit in adopting a 'wait and see' approach to understand what form the EU system may take, there is no guarantee that an agreement on the ViDA proposal will be reached in June of this year or if the 2028 timeline for implementation of DRR and eInvoicing will be deferred.

In this regard, the Institute welcomes the clarification in the consultation document that any domestic VAT B2B and B2G real-time DRR and eInvoicing regime will need to align appropriately with any changes proposed at EU-level for intra-Community transactions to ensure coherence and minimise compliance costs.

2. What matters should be considered in planning for a transition to a new VAT Reporting system?
*

- Revenue Engagement:

Consultation with stakeholders and industry focus groups will be critical to the successful implementation of DRR and eInvoicing to help inform decisions and ensure that all issues are fully considered.

The Institute is actively engaging with Revenue on the VMOD project at a subgroup of the TALC Indirect Taxes Sub-committee (i.e. the TALC VMOD subgroup). We would urge Revenue to continue with this productive engagement with representative bodies via TALC. In addition, we believe wider engagement and extensive discussions will be necessary across all business sectors to ensure comprehensive feedback is compiled from as many stakeholders as possible.

Consultation with accounting and eInvoicing software providers will be essential to ensure the design of the real-time DRR and eInvoicing regime will work for all businesses; align with the changes proposed at EU-level for intra-Community transactions and minimise compliance costs.

Cross-stakeholder engagement involving businesses, tax advisers, third-party and Revenue software and systems developers would be important at an early stage, to ensure that the needs of businesses are fully understood before work advances on the design of new software and systems.

- Phased introduction with an appropriate lead-in time:

Revenue has historically applied a phased approach to the implementation of new mandatory filing requirements, such as mandatory e-filing of tax returns and the requirement for certain corporates to file financial statements in iXBRL format. A phased approach should be continued with the introduction of any new real-time DRR and eInvoicing regime.

A phased implementation would ensure a smoother transition to real-time DRR and eInvoicing (i.e., larger businesses first and then smaller businesses complying at a later date). For example, we understand that France is phasing in all large businesses for DRR and eInvoicing first and then phasing in smaller businesses at a later date. However, all businesses must be e-enabled when DRR and eInvoicing goes live so that a small business can receive an eInvoice from a larger business. We believe Ireland should implement a phased approach similar to what is being adopted in France.

Indeed, Revenue could also consider having an "opt in" period with a form of safe harbour protection for SMEs prior to real-time DRR and eInvoicing becoming mandatory. We believe such an approach could help encourage early adoption.

Undoubtedly, an appropriate lead-in time is essential to allow businesses to test systems and work with their various system providers. The feedback we have received to our survey suggests that there is general support for the proposal to introduce real-time DRR for B2B and B2G transactions. Members noted experiences of how successful DRR has been in other countries.

Larger businesses with a larger volume of cross-border transactions or a more streamlined B2B / B2G supply chain and sophisticated ERP systems are likely to adapt to the change more quickly compared with smaller paper-based businesses. It is understood that a move to real-time DRR is inevitable in the digital age and members noted that real-time DRR should assist taxpayers remaining tax compliant.

However, for smaller domestic businesses, significant changes to their systems and processes will be required to comply with the proposed model. In particular, concerns have been raised by our members regarding the initial difficulties that will be faced by small businesses to implement new systems. Having an appropriate long lead-in time would allow smaller businesses to fully address the implementation challenges of real-time DRR and eInvoicing.

Consideration should also be given to the Revenue services and supports that small practices will need to assist their clients to comply with any new requirements, as informed by the stakeholder engagement process.

3. If your business is currently subject to a VAT reporting programme in another EU or non-EU country, can you please share best practice, recommendations or lessons learnt? *

Some feedback we have received from our members suggests that the HMRC process in the UK can be unreliable from a systems' perspective as it requires constant updates to accounting packages and even then can still remain unreliable. In addition, third-party software providers require intervention frequently for connections to be restored. The feedback highlights that the facility to complete the return online directly is much more efficient. The feedback also suggests that bridging software is required in many cases to report to HMRC and this can become costly for taxpayers.

Other feedback we received highlighted that for intra-Community transactions, a third-party vendor could help to meet the requirements in each country. However, the planning and implementation phases are extremely costly for businesses as teams need to be resourced and project fees are incurred from the third-party vendor each time a country decides to implement some form of real-time reporting. For MNCs with multiple ERPs, this can be very expensive.
We have also received feedback that there may be General Data Protection Regulation (EU GDPR) issues to consider in this regard.

EInvoicing

Several EU countries are moving towards an obligatory eInvoicing business model. The Commission's current proposals will make it mandatory to issue an eInvoice for intra-Community B2B transactions. The development of domestic eInvoicing here supports the digital transformation across the economy and fits well with the ambition of the Government's "The Digital Ireland Framework".

4. Have you any observations, concerns or recommendations on a move to mandatory electronic invoicing for B2B & B2G domestic VAT transactions? *

- Make testing available in advance of implementation:

In order to ensure certainty for businesses, testing should be made available well in advance of implementation of real-time DRR and eInvoicing. It is crucial that the system implemented for domestic transactions will also work for cross-border transactions to avoid further costs and systems changes down the line.

Feedback we received suggests that some businesses may not use one unique system to capture all elements of invoicing and that many businesses currently work with more than one financial system. There is a concern that businesses will encounter difficulties reporting in real-time where there is an element of manual review required at the time the invoice issues. Engagement with software developers will be essential and the availability to test the relevant systems well in advance of implementation would help to ensure a smooth transition to VMOD.

While the concept of eInvoicing is not entirely new to Ireland's VAT regime (i.e. all public bodies are required to accept an eInvoice from a supplier if that supplier chooses to issue one since April 2019), introducing mandatory eInvoicing for domestic B2B and B2G transactions represents a major change to Ireland's VAT regime, in particular for small businesses. Directive 2014/55/EU obliges all public bodies to be able to receive and process eInvoices in accordance with a common European Standard. The European Commission proposes that this standard on eInvoicing (EN 16931) will apply to eInvoices issued in relation to intra-Community transactions and that this standard will also apply to the issuance of domestic eInvoices.

Feedback from our members suggests that there are many situations where specific wording is required for domestic B2B invoices, such as in the case of the margin scheme for VAT, VAT 56B authorisation, Relevant Contracts Tax (RCT)and property transactions. In addition, there are many industry practices in the finance and leasing area (e.g. a Hire Purchase agreement VAT invoice, annual leasing VAT invoices etc.) that need to be considered. Setting up suppliers on purchasing systems can have long lead times/risk management requirements.

Invoicing changes should also recognise other relevant legislation (and regulation) that deal with payment claims and the supporting documentation for such claims. For example, the Construction Contracts Act 2013 sets out the process for claims and payments in the construction industry. Any new e-invoicing changes need to align with, and not over-complicate, existing commercial practice.

Countries will typically amend their domestic VAT legislation to allow for e-invoicing and digital reporting criteria and care will need to be exercised when amending VAT legislation, particularly in respect of credit notes. The tax invoice and adjustment note (credit and debit note) criteria need to be clear and should not change frequently. Ideally, they should be locked at the outset after consultation because ongoing criteria changes will give rise to challenges and increase costs for businesses.

For example, in New Zealand, the GST Act was recently amended and new definitions of tax invoice and credit/debit note were introduced as a preliminary step to future e-invoicing. The legislative drafting in New Zealand was imperfect and required several remedial amendments over time. Any new credit note criteria needs to be flexible and allow for different business practices.

Certainly, eInvoicing will be a significant change where a business currently issues manual invoices and uses a number of different systems. Therefore, making testing available in advance of implementation will be crucial and consideration should be given to piloting the regime for a year in advance of becoming fully operational. This would give both businesses and Revenue sufficient time to fully test and develop confidence in its operation.

5. Revenue is particularly interested in hearing views from businesses that are already engaged in eInvoicing Public Bodies within Ireland or engaged in B2B eInvoicing throughout Europe and

beyond. How did you prepare and what challenges prevailed in your preparations for eInvoicing? *

No feedback received from members.

6. What suggestions would you offer in Ireland's arrangements for a mandatory B2B and B2G eInvoicing programme? *

- Supports for businesses implementing real-time DRR and eInvoicing:

The move to real-time DRR and eInvoicing will be a substantial adjustment for smaller businesses who are accustomed to paper-invoicing. The cost involved to invest in new technology, new staff and increased professional fees will need to be factored into the decision-making process to implement real-time DRR and eInvoicing.

The cost on transitioning to a new reporting system or upgrading existing technology will need to be carefully considered when deciding when and how to implement real-time DRR and eInvoicing. In particular, Revenue will need to consider instances of one-off transactions, such as the transfer of a business or group reorganisations.

Financial assistance will be required for any software changes, both financially and in terms of training on new systems or difficulty in transitioning to new software. Any system upgrade can be onerous and time-consuming and often require the recruitment of additional staff, which is an area that all employers are encountering difficulties at present.

Businesses will need support to adapt their technology to support mandatory eInvoicing and smaller companies will need considerable assistance to implement an eInvoice system. While there is complexity and costs involved in setting up an eInvoicing system, feedback from our members acknowledges that there will also be a long-term benefit.

We understand Enterprise Ireland and DETE have set up the Digital Transition Fund and this fund will be crucial for SMEs transitioning to digital technology to reach new markets and improve their productivity and competitiveness. Some SMEs are still not fully e-enabled, therefore, having supports available for these smaller businesses to become e-enabled will be an imperative. Alignment across the EU to avoid further costs to implement changes to systems further down the line would be welcome.

- Flexibility to cater for differing business models:

In deciding the timeline for submission of the data, Revenue will need to consider the various business models where invoices are slow to issue. For example, if a business engages services of outsourcing, there are many different elements which can cause a delay as to when the invoices are received.

Separately, timing differences can occur between when a supplier reports the outbound sale and when the recipient reports the inbound purchase. It can take a significant amount of time for inbound invoices to work their way through approvals and AP processes. Therefore, the reporting system should not impose stringent timelines for recipients to report the purchase invoices. Revenue will need to liaise with various industries/sectors to understand the timeline of when an invoice is agreed and when purchase orders are received etc.

- Consideration for businesses that also have B2C transactions:

We understand that a public consultation on moving Ireland's business-to-consumer (B2C) transactions into the realm of real-time DRR supported by eInvoicing is on Revenue's workplan for 2024. While an appropriate lead-in time is essential to introduce real-time DRR for B2B and B2G transactions, it may be worth exploring the merits of including B2C transactions at the same time of implementation of real-time DRR for B2B and B2G transactions. We understand from members' feedback that some businesses with B2B and/or B2G transactions may also have B2C transactions and therefore, these businesses would in essence have to operate two different reporting systems.

- A well-planned communication and support strategy:

A well-planned strategy for communicating with stakeholders and a package of Revenue supports will be necessary. Businesses will need time to prepare for the real-time regime including investment in IT, training of staff and the revision of existing invoicing procedures. The communication plan should commence at least one year before the regime becomes operational.

Current VAT Reporting Formats

The existing approach to VAT reporting formats (e.g. VAT 3 return) will be redesigned as part of a real-time reporting system.

7. Revenue are cognisant that small businesses may have different perspectives and requirements to large businesses, so what information prompts would you find useful for businesses in completing the VAT return? *

Clear guidance for each section of the VAT Return will be important, with sufficient examples for both large complex businesses and small businesses. It would be beneficial to have a prompt for an overall check of the total VAT amounts to ensure that the figures can be checked back to the business's system.

The VAT Return should provide for the inclusion of all necessary boxes/formats for different types of transaction reporting - similar to the existing VAT Return of Trading Details (RTD). Once businesses are familiar with the options, then the return could be more streamlined.

The availability of a comment box could provide assistance in the initial stages to allow filers to include any comments on particular line items which may reduce the need for further engagement through MyEnquiries.

Some prompts around intra-EU transactions and Imports/Exports and Postponed Accounting would be particularly helpful for smaller businesses. Scope to separate new sections on the form should also be considered so that only businesses which need to address a particular section of the form, are required to complete it. In this way, the VAT Return could be made simpler for smaller businesses to complete.

Some feedback suggests businesses are struggling to understand all the reverse charges provisions for subcontractors, intra-EU transactions, services outside EU etc. The system needs to be simplified and pre-filling data, for example from the RCT portal, would be useful.

In addition, there should be clear guidance on how corrections or errors should be dealt with and reporting requirements should be simplified where possible to reduce the administrative and financial burden for businesses.

Section B - Business Context

The answers you will give in this section will give us an insight to your responses to Section A. It will help us understand your business perspective and fully appreciate what is important to you.

8. Are you are responding to this consultation in any capacity other than as a taxpayer, eg. as an advisor, an accounting software or eInvoicing service provider, Representative Body, Industry Group or, Government or Public Body? *

- (selected) Yes
- No

9. Please provide some context about your organisation and the capacity in which you are contributing to this consultation. *

The Irish Tax Institute is the leading representative and educational body for Ireland's Chartered Tax Advisers (CTA) and is the country's only professional body exclusively dedicated to tax. The Institute is responding to this consultation in the capacity of Representative Body.

The Institute carried out a survey of our members on modernising Ireland's administration of VAT in November 2023. We received 58 responses to our survey with the majority of responses received from non-Big 4 accountancy/tax firms - 8 tax partners or less (24%) and sole practitioners (21%).

We also received responses from Irish PLCs, foreign-owned MNCs, medium, small and micro Irish businesses (making up 33% of responses) and have summarised their responses to the questions in Section B below.

To help understand the business activity of responses to the consultation, Revenue requested a brief description of the business. The responses to our survey are from a broad range of business profiles, including:

- Banking services.
- Retail & wholesale of food and beverage.
- Manufacturing and sales.
- Large manufacturing and technology companies.
- Pharmaceutical companies.
- Retail.
- Financial services.
- Accountancy Practices.
- Health Insurers.
- Large MNCs.

50% of the respondent businesses engage in the supply of goods, 25% in the provision of services and 25% engage in the supply of both goods and provision of services.

The customer profile of the businesses that responded to our survey included an even mixture of the customer-profile options available, with the majority selecting all B2B customers (37.5%). 25% of respondents selected a mixture of all three-B2B, B2C and B2G, while 18.75% selected a mixture of B2B and B2C. Clearly from the responses we received, a large proportion of respondents have a mixed customer profile which include B2C customers.

The responses from our members varied with over 56% of respondents to our survey indicating turnover for their business in excess of €12 million in 2022. Almost 20% of respondents indicated turnover for the business between €700,001 and €1 million in 2022. Over 12% indicated turnover between €100,001 and €700,000 and over 12% also indicated turnover over €5 million but under €12 million in 2022.

The responses from our members were spread quite evenly across the geographical locations of customers presented, with the majority selecting Ireland (81%) and the EU (63%). Followed by Northern Ireland (NI), GB (UK excluding NI) and rest of world, with 50%, 56% and 44% of respondents selecting these geographical locations respectively.

The responses from our members were spread quite evenly across the geographical locations of suppliers presented, with the majority selecting Ireland (88%) and the EU (81%). Followed by Northern Ireland (NI), GB (UK excluding NI) and rest of world, with 63%, 69% and 69% of respondents selecting these geographical locations respectively.

The majority of respondents (93.75%) to our survey confirmed the business or an employee of the business submits the VAT returns on ROS. The remainder of respondents confirmed they use a third-party (external bookkeeper/accountant) to submit their VAT Returns.

The majority of respondents (87.5%) confirmed they submit VIES returns online.

The majority of respondents (87.5%) confirmed they submit payroll details to Revenue via direct reporting using payroll software.

The majority of respondents (93.75%) confirmed they use an accounting package to keep business records.

Software packages used by respondents to our survey include:

- SAP
- Oracle
- QAD Enterprise Applications
- Excel
- Surf
- BrightAccounts
- Pegasus Opera
- Bright/Surf
- JDE
- Sage

40% of respondents noted their accounting package has the capability to issue/receive eInvoices, while 40% noted the accounting package does not have this capability. 20% of respondents did not know.

The majority of respondents (87.5%) electronically issue PDF/other forms of invoices.

10. Your name and contact details (E-Mail and/or phone number) *

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