



HM Revenue
& Customs

Alternative method of VAT collection – split payment

Consultation document

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Answer DAGTVA New indirect tax system

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Preamble and principle:

Comments were been inserted in the explanatory paragraphs; they come in addition to the questions asked.

This response aims to give the UK, through the solution proposed here, the opportunity to meet the challenges on indirect taxation vis-à-vis its European and global partners, a solution that is compatible with the situation in UK post Brexit in December 2020.

The explanations given below concern the split payment with an adaptation of DAGTVA into the exceptional situation of Brexit with the new version V3, where the foreign banking system is not involved in the transaction. These explanations in this special framework are expressly given on the website inside the slideshows. They appear as a watermark of the procedures. You can find them quite easily by deduction.

To return to this call for contributions concerning the "Split payment", DAGTVA proposes a "split banking payment" solution where VAT or other indirect taxes are directly collected on the bank payment, and do not to be confused with the "split payment" ". It is not exactly the "split payment" executed outside the banking system by the seller's companies after receiving the payment, even if the NET and the VAT are in bank accounts.

It should be noted that currently: Poland and Romania are introducing a system of a VAT separation also called "split payment". It is not really a "split payment" that is defined and used today in financial transactions, within the banking system. It is in fact only a "voluntary" sharing payment made by the seller in VAT special accounts. This is an avatar that does not provide a comprehensive solution to many VAT problems, such as with the missing traders in VAT carousels. It can be only applied on domestic transactions. This "split payment" is also not in line with the EU and OECD guidelines, according to which VAT must be collected in the country of consumption on cross-border transactions.

Important:

Details of the preliminaries principles.

The principle of DAGTVA is based on the obligation to have a sale's invoice established during the creation of a transaction.

The preformatted summary (SAFT-T) of this invoice is automatically sent by computer means, the invoice is e-filed to the tax authorities (HMRC), and MTD, your new declarative system in April 2019, request this obligation.

A tax authorization (Tax Clearance) is calculated, created, then provided or sent directly to the buyer's bank before or upon payment (SEPA codification possible).

With this tax authorization, the bank extracts the total of the payment from the buyer's account and splits this payment in NET and VAT.

The bank credits directly the VAT to the Public Treasury and after confirmation, the Treasury gives an order of the tax authorities (HMRC), these asks the buyer's bank to execute the bank's shuttle to credit the NET to the seller, in the seller's bank account.

With this means, the tax authorities (HMRC) also control the interbank transactions.

This process means that: without an invoice, there is no tax declaration e-filed toward the tax authorities, it is impossible to create the tax clearance of the transaction and if this tax clearance does not exist, the buyer's bank will not have access to this tax authorization, it will be impossible to process the payment.

Foreword

As the global and UK economy evolves, it is important that the tax system moves with it so that markets work effectively and vital public services can be funded sustainably.

We will ensure our tax system does that by:

- supporting businesses to take advantage of new technologies and maintaining the UK's position as one of the best places in the world to set up and grow a business.
- Ensuring that our tax framework is fit for purpose for the digital age and that it adapts to both the challenges and opportunities of this new economy.
- Working internationally to create a global tax framework for the digital economy

The result will be a system that ensures businesses and individuals contribute their fair share to our public services but also create a level playing field and enterprise - friendly environment in which those businesses and individuals can thrive.

Over the past two decades, the UK has seen the benefits of technological innovation. The digital economy provides UK consumers with access to an unprecedented variety of goods and services, many of which can be purchased from sellers across the world with a simple click or tap of a button. It has also provided significant new opportunities for small - and medium - sized UK businesses to win customers worldwide in markets previously inaccessible to all but large corporations. This expansion is welcome and is to be encouraged.

However, the expansion of e-commerce has posed a significant challenge to the UK VAT system. Certain businesses fail to charge VAT when they are supposed to on sales of goods to UK consumers. This non-compliance not only deprives the Exchequer of monies needed to fund public services (estimated at £1- 1.5 billion in 2015-16) but also undercuts the honest majority of businesses.

Comment: As it says in the preamble, if there is no VAT declaration assigned to the invoice, the bank payment becomes impossible. With DAGTVA, this situation can also work with a zero VAT rate, which de facto removes the "VAT-free or without VAT" and makes whole sectors of the economy impacted by the VAT for the benefit of the Treasury.

This government has taken swift action to address the issue, leading the way internationally. The UK was the first country to introduce joint and several liability rules to hold online marketplaces responsible for the unpaid VAT of sellers on their platforms. Measures announced at Budget 2016 and Autumn Budget 2017 are together expected to secure just under £1 billion by 2023.

But the government wants to go further in combatting online VAT fraud, by harnessing new technology. So today, we are launching a consultation on VAT split payment. This will utilise payments industry technology to collect VAT on online sales and transfer it directly to HMRC. This would significantly reduce the challenge of enforcing online seller compliance and offer a simplification for businesses.

1. Introduction

Background

1.1 There has been a large increase in online shopping in recent years, with many goods sold to UK consumers by overseas sellers using online marketplaces. Internet sales in the month before Christmas 2017 alone were nearly 10% higher than the same month a year before. To satisfy consumer demand for rapid delivery, overseas sellers now routinely store their goods in the UK.

1.2 Businesses that are VAT-registered (or that are required to be) must charge VAT on relevant sales to their customers. The businesses collect this VAT and remit it to HM Revenue & Customs (HMRC) at regular intervals, usually quarterly.

Comment: With DAGTVA, this timing to remit the VAT disappears. The VAT treatment for each transaction will be finished at the end of the banking shuttle and this justifies the following comments below.

The invoicing of the VAT with MTD is mandatory in March 2019 for the companies selling in UK. With DAGTVA, the foreign companies which sell in UK no longer collect this output VAT on the sale paid to them today, the VAT is taken at the source of the payment in United Kingdom: of the buyer's company and in the local consumption.

You think it is an infringement on regard the below paragraph 5.4 and I quote: "*PSD2 stipulates that the full amount of a payment made by a consumer must be transferred to the recipient by a payment provider. Therefore, under existing EU law, it may not be possible to implement a split payment mechanism as is proposed in this consultation*".

However, you add in your text: "*the EU is also looking at split payment as a possible VAT reform for the future*".

It is important to read the text with a great accuracy. Nowhere it is specify that "*the full amount of a payment*" must have the VAT included, the detail: NET and VAT of the transaction is unknown along the payment provider process!

Nothing is impossible, 2020 it is tomorrow and *PSD2* is a European directive! The United Kingdom may not subject to this directive in January 2021, but can conserve a part of this structure to maintain the banking link with the European countries by the payment providers with an agreement "Split banking payment" and, continue to use the SEPA structure. To close this topic, I am not sure that the HRMC gives the agreement in UK for the GAFA to execute the "split banking system" as payment providers! Save the banking system, the pillar of stability, is a priority!

Texte in italic below not used in the new Version 3.

To stay in the frame of this regulation inside the split payment, the process will be accompanied with the "Tax Clearance" as information at destination the foreign seller. Inside the bank transfer from the purchaser's bank the "Tax Clearance", as information, will be attached for reconciling the accounts books of the seller's company with this "Tax Clearance" mentioned in the credit bank notice.

With these informations: NET and Tax levied, all is clear with the precedent paragraph 5.4 and it is not necessary to renegotiate anything. For the future in this context, in the foreign country, businesses and tax authorities will have to modify their processes by updating their local tax systems, it is not a UK's problem! After the Brexit, an abroad indirect tax

management does not involve the UK. It must be the contrary; the United Kingdom will impose its indirect tax system elsewhere.

Example: A transaction B²B (UK²DE) with the purchase in UK, the output VAT mentioned on the German invoice will be levied by order the HMRC on the payment in the UK and never paid to the German company. This business will be paid NET amount because the tax applied at the invoice's creation, as in GST, is a German tax on production. It is not at this stage a "Value Added Tax" refunded later in UK.

Why would you want the UK to send the tax payment of a foreign paid tax on production in Germany and later this tax will be refunded to the UK's company in UK? It is a no-sense!

This is too a real simplification for the management of the German company, which only has to mention the VAT levied at source on its sales in the United Kingdom.

In addition, VAT fraud becomes impossible and the HMRC have with MTD the turnover of each company!

You can think it is the end of VAT. No! If you make the balance at the end of the transaction, there is no tax collected in the coffers of the two States (United Kingdom and Germany). The concept of VAT in this B²B transaction and all other cases is respected and completely neutral. It is the main force of the VAT, this type of tax on consumption; labour and investment are not involved.

It is this main property of DAGTVA which can used in all indirect tax systems, and for example, gives the possibility for USA to have the same VAT advantages while conserving GST. (See the comment at the end of this consultation).

The VAT tax system known today has transformed in an RGST (Refunded GST) with the same VAT effects on each transaction. This new indirect tax system may be applied everywhere without distinction of indirect tax system used. The concept of VAT is saved but the indirect tax is levied in others conditions.

This new indirect tax system can bring a negotiating ground and the consensus of an international tax solution, (partially applied in GCC-UAE and India today inside in their two first international declarative systems, the first part of DAGTVA). This negotiating ground probably used after the Brexit in January 2021, when the VAT Directive of the European Union will be "disconnected" from the United Kingdom.

With the DAGTVA solution, there is no break between the United Kingdom and other countries; and would produce the same tax benefits everywhere.

The United Kingdom will impose this system on foreign companies with the mandatory registration (MTD) in the United Kingdom, to reinforces it in its position inside the transaction and involve the foreign company in its tax system.

The process brings many facilities and advantages for foreign companies to trade with the United Kingdom in this system.

With DAGTVA, the United Kingdom, the 5th world economic power, will take a leading position in international exchange while respecting all existing cross-border agreements.

The cross-border transactions B²B, B²C, C²B on e-commerce, with DAGTVA can be tested inside the United Kingdom by using its different Nations, without necessity the demand to a foreign country (no difference between domestic and cross-border transactions).

1.3 When goods are in the UK at the point of sale, overseas sellers must register for VAT regardless of their turnover. Many such sellers may not be registered, or if they are, they do not necessarily collect the right amount of VAT. The government is

working to ensure a level playing field, by removing any unfair advantage overseas businesses may have over UK businesses.

Comment: The previous text certainly presents a situation where the buyer resides in the UK with deliveries (from abroad) of goods stored in a warehouse in the UK. In this situation, then there are two cases in B²B and B²C transactions.

1) B²B Transaction: With DAGTVA, it is impossible that the foreign seller is not registered for VAT in the UK. For the simple reason that, if this seller wants to be paid, there must be an e-field digital declaration of the invoice from the buyer (which is subject to VAT in the UK and this local business wants to recover VAT on his purchases). This is the control key of the declarative system DAGTVA where the buyer obliges the seller to register for VAT and also to make a digital declaration of its sales (same process). The foreign seller is then obliged to have a permanent establishment in the UK if he wants to sell there (Report on BEPS Action 7 to Article 5 of the OECD Model Tax Convention). Another solution, the foreign company makes a declaration to HMRC through a secondary informative transaction between the seller's foreign site and the UK's permanent representative firm. This is very important because, with this situation, the two parts (seller/buyer) involved in the transaction are in UK and under his jurisdiction.

Control: the declaration of the buyer presents always the VAT number of the foreign seller. The tax authorities (HMRC) will instantly check the VAT number of the selling company and if there is no seller VAT registration in UK, the tax clearance will not be produced by the HMRC's services to the UK buyer's bank, prohibiting the payment.

2) B²C Transaction (Case of e-commerce - buyer (C) in UK seller (B) in a foreign country). As I wrote in the comment above, the foreign seller who wants to sell to the UK makes a digital declaration of his sale to the HMRC directly with his VAT registration or via a secondary informative transaction between the seller's site and the permanent representative's office in the UK.

The buyer (ultimate consumer in the UK) before any purchase must create an account on the website in the foreign company with his address where the country of residence is specified. During the digital payment of his purchase by credit card, it can be imposed on the merchant sites e-commerce that there is correspondence between the country of delivery and the origin of the bankcard payment.

Note of a special situation and its resolution: Only the foreign seller knows where the buyer comes from on the web with his account's details and the shipping address. In addition, it is possible, his is a very rare case, that a British buyer pays with a Swiss bankcard with a delivered to the UK. The debit from the buyer's account will be held in the bank account in Switzerland. MTD cannot provide to the seller the purchase identification where it is stipulated that the tax in UK is levied in UK. HMRC not send the delivery barcode with the buyer's address. This banking transaction does not concern the UK, but this remains a very marginal case of import without customs duty, which would be impossible with the correspondence between the origin the bankcard and the place of delivery.

Resolution : Certainly you have noticed, in DAGTVA's B²C declarative system, that there must be a label stuck on the packet with a barcode, label issued by the HMRC when the tax clearance is created and automatically e-filed to the foreign seller, to prove that the import tax formalities in the UK have been correctly made. In this case, the parcel cannot have any import identification in the UK.

The important thing is that the buyer pays with a bankcard of an approved bank "split banking payment" in UK, otherwise he will not be able to pay for his purchase in a foreign country. This is not a problem, all banks in the UK, as elsewhere) will be approved because no bank

will dare to deprive itself of B²B transactions; B²G, B²C, C²B and in the future C²C with the payment by telephone and to conserve the controls in peer-to-peer transactions when arrives the disappearance of the cash (Sweden and Denmark in 2020).

1.4 The growth in online shopping has resulted in significant losses of VAT. It is estimated that between £1 billion and £1.5 billion was lost in 2015-16.

Actions taken so far

1.5 The government introduced packages of measures at both Budget 2016 and Autumn Budget 2017 to tackle the issue of overseas businesses selling goods to UK consumers without paying the correct UK VAT, and already these measures are producing encouraging results. In addition, in March 2017, HMRC published a call for evidence², seeking views on the feasibility of a 'split payment' collection method for VAT as a further step in preventing this type of non-compliance.

[Comment](#): see the comment § 1.3

1.6 The call for evidence primarily focused on how technology within the payments industry could be used to extract VAT in real time and deposit it with HMRC, thus reducing the opportunity for non-payment of the VAT by the overseas merchant. It also set out proposed design principles, and asked what challenges split payment might impose and how these might be overcome.

1.7 The majority of responses were positive, whilst acknowledging there are challenges. The overall view was that split payment is technologically possible. The Chancellor announced the government's response at Autumn Budget 2017, and HMRC published a summary of responses³ in December 2017.

1.8 In addition to the call for evidence, HMRC has held one-to-one meetings with a number of stakeholders, including banks, technology companies, and representative bodies of the payments industry, to discuss ideas in more detail. These workshops will continue throughout this consultation period.

This consultation

1.9 The government is grateful for all the engagement from stakeholders so far. It has carefully considered all feedback, and HMRC has used this to develop its thinking of how a split payment mechanism could work.

1.10 The government remains of the view that a feasible split payment mechanism for VAT, which would allow VAT to be extracted from online payments in real time, would help to reduce the VAT gap⁴. Through this consultation, the government is asking for views on potential options for a split payment mechanism whilst also further assessing the overall viability of split payment by seeking the views of a wider range of stakeholders.

Comment: A feasible bank payment split mechanism for VAT, which would extract VAT from online payments in real time, would help reduce the VAT gap. This is exactly what DAGTVA does without any human intervention.

1.11 This consultation sets out the government's emerging thoughts, based on the engagement with stakeholders so far. It sets out how it thinks the potential mechanism could work, how it could be enforced, and considers a number of options for how the VAT could be accounted for.

1.12 HMRC will be running a series of collaborative workshops to test emerging views over the spring and summer and invite s all those with an interest to get in contact to make arrangements.

2. How split payment could work

Where should the split take place?

Comment: It seems to me that there is only one possible secured environment for this operation, it is the banking system.

From the moment an invoice is created following the purchase of a final consumer or a taxable company, the VAT on the payment of this invoice, even with an amount to zero (see the comment in the foreword), belongs at this moment to the Public Treasury of the country where the consumption of the purchase is realized. Reason for why the VAT is a tax on the consumption. Taxes on purchases that are refunded to companies (reverse charge).

With the IT systems today, we now have the means for the VAT to pass directly from the payment to the Treasury without going through the companies for this collection, while retaining the companies the duty to mention in the invoices the amount of this VAT and declare it electronically.

If we consider today that there exists in almost all the payments, a value of VAT to be extracted on the total amount, nothing indicates this value by some means of payment that is. It is also possible that the VAT allocated to a payment is a complex nature with a detail of several items with different values and VAT rates. It becomes impossible for the "person" who holds the payment (the banking system) to extract automatically the VAT from this payment without having access to the details of the invoice and, in the "split banking" solution proposed by the European Commission in the *Green Paper of VAT* in 2011. The solution has led to an internal management of VAT by the tax authorities within the banking system. For two main reasons this solution was refused:

- 1) The management and calculation of a tax is not part of the business in the bank.
- 2) The tax authorities would have access to VAT accounts of companies with a suspicious regard considered like an intrusion into banking secrecy.

Tax authorities being the only ones to be able to determine a tax, it is the tax authorities to give the banking system the missing information, it is the "tax clearance" assigned to the invoice and used by the purchaser's bank during the payment.

2.1 In any online payment, a number of different parties are involved. These may include some or all of the following: the issuing (customer's) bank, a merchant acquirer, a payment service provider (PSP), a card scheme, and the merchant's bank.

Comment: With DAGTVA, the payment service providers (PSPs) are not involved in the VAT recovery procedure. All is transparent for these intermediaries.

2.2 One of the key considerations for taking this work forward, and a key objective for this consultation, is to identify which party is best placed to perform the split of the VAT from the gross payment. One of the design principles from the call for evidence was the need for clarity on this point.

Comment: As I wrote in the commentary, only the security and reliability of the banking system are able to do this operation. The banking system receives the gross payment VAT included and it is the only legal one to be able to treat this VAT extraction.

2.3 One of the factors that enables the non-payment of VAT by overseas sellers is that they are outside the UK's jurisdiction, making enforcement by HMRC difficult. It is therefore important that the party responsible for performing the split is either within the UK's jurisdiction, or that there is another way to enforce compliance with the split payment mechanism.

Comment: Companies subject to VAT in the United Kingdom will have to register on the Public Finance website and accept:

- That the declarations of invoice creation are automatically transmitted, by computer means (e-filed), to the Public Finance Center (HMRC) which currently manages the tax for this company. Not in a unique data center.
- That the company's accounting software is equipped with interfaces allowing automatic declarations to the tax authorities.
- If the bank split payment in NET and TAX is applied,
 - To choose an approved bank by the tax authorities (HMRC) which make the split payment.
 - That the VAT to be collected (output VAT) writes on the invoice will be deducted directly from the bank payment.
 - That the seller company will be paid NET amount with proof of the tax deduction at a source to reconcile the account's books.
 - That the VAT applied on the purchase (input VAT) will be instantly refunded by closing the bank shuttle, (in the VAT environment).

Since companies must agree to have a bank approved for their transactions where VAT is present, the party responsible for the execution of the split falls under the jurisdiction of the United Kingdom simply because the buyer in UK makes its payment at a bank in the United Kingdom, as its undertook when register.

The company in the United Kingdom buying is a little constrained by this process because this company wants the VAT of its purchases to be refunded.

Indeed, the company cannot do otherwise because of its declarative obligations that condition the refund of VAT on purchases. The tax clearance calculated by the tax authorities can only be sent to a UK bank, which removes the option of having a company in the United Kingdom using IT facilities to pay local transactions, with payments in banks outside the UK borders.

2.4 Another factor to consider is how much information each party holds about the transactions flowing through their systems. In particular, it is important to know both that the supplier is overseas and that the customer is in the UK. The government's understanding from the responses received is that the merchant acquirer is the only party that acquires both of these pieces of data⁵.

Comment: The company subject to VAT domiciled in the UK who buys from a foreign company will have a purchase invoice. This UK company must register (with MTD) in his account books this invoice and it is on this invoice that all the information are and the tax details are mentioned, now available for the tax authorities in UK. It is even possible that the VAT or tax rate is already the one applied in the UK. It is these informations that will be e-filed to the local tax authorities.

2.5 Additionally, the merchant acquirer is better placed to obtain information regarding the VAT liability of the transaction, as it has a contractual relationship with the merchant. This is discussed in greater detail in section 3 below.

Comment: see the last comment § 2.4

2.6 The government's emerging conclusion, based on the engagement it has had so far, is that the merchant acquirer is likely to be the best party to effect the split.

Question: Do you agree that the merchant acquirer is the best placed party to effect the split of VAT from the gross payment? If not, who do you think would be best placed and why?

Comment: In B²B transactions the merchant acquirer cannot be the best placed to apply the split payment, for the simple reason that at his level he is a payer and it is not up to him to determine what should be taken as VAT on his payment. The information on the tax on the sales bill corresponds to a **tax applied on the local production** with a local rate; it is not yet VAT defined out of UK (cross-border transaction). This tax is determined according to the production and taxation criteria of the foreign company, following the country's tax guidelines. These two criteria may not correspond to the desirable indirect taxation in the UK after Brexit.

The tax authority (HMRC) receives the tax declaration e-filed, then verifies it, before determining the "tax clearance" and possibly correct it before using in bank by the split banking. HMRC exercises a total control over the procedure.

It is therefore not up to the company to determine the taxation to apply to a transaction; despite the presence of a correspondence between a product and its analytical assignment which was defined abroad in another economic context.

The best placed, in the most secure and reliable environment is the banking system.

Fall-back options

2.7 The government has also considered fall-back positions in cases where it may be necessary to deviate from this principle – for example if the merchant acquirer is not in the UK and does not meet the criteria for effecting the split, or does not make the split. The government has considered two potential safeguards.

Comment: In the case of a cross-border transaction, the UK Company is mandatory subject to VAT in the UK with DAGTVA; following the creation of the sales invoice for the abroad destination, this UK company makes a digital declaration to the HMRC.

There is no procedural difference for a national or cross-border transaction.

At this step, the TAX assigned in the invoice is a local production TAX, TAX which can be considered as such if the country of the buyer is not the VAT environment.

The HMRC can therefore easily record the amount of tax for each country, regardless of the system of indirect taxation it applies.

2.8 Firstly, HMRC believes the card schemes could play a role in ensuring merchant acquirers adhere to the requirements of the split payment mechanism.

Comment: The intermediaries of digital payment play no role in the split banking payment.

Secondly, HMRC could require the card issuer to effect the split when it cannot be known for certain if the merchant acquirers or PSPs will do so. In the majority⁶ of cases, the government's understanding is that the card issuer will be based in the UK and so within the UK's jurisdiction.

Comment: A payment must be made from bank account to bank account. This is the business of the banking system and not those who could hold the payment of the purchase. I would like to remind you that with DAGTVA, the seller will never be in possession of VAT. This VAT, when the payment is made, it must be immediately in the treasury coffers without any intermediary.

How could the process work in detail?

2.9 The government has considered how a split payment mechanism could work and sets out below the various steps that could be undertaken to allow VAT to be extracted from overseas sellers. The developing thinking, based on the engagement so far, is that there could be three potential stages to the split payment mechanism. For the purposes of this consultation, and to provide some clarity, they are referred to as the 'setup stage', the 'transaction stage', and the 'reconciliation stage' in this document.

2.10 In the setup stage, HMRC could create a list of fit and proper acquirers and PSPs that are known or are trusted to comply with the rules. This could be maintained and updated on a regular basis. Acquirers or PSPs whose clients intend to do business in the UK could apply to be included on the register. This register could then be available for all UK banks and card issuers to look up.

Comment: As it was said, the digital declaration on the invoice's issue to the HMRC, the VAT number of the purchaser is known.

Control: the declaration of the buyer presents the VAT number of the foreign seller. The tax authorities (HMRC and MTD) will instantly check the VAT number of the company selling and if there is no VAT registration in the UK, the transaction will not be accepted by the HMRC as long as there will be no VAT registration in the UK of the seller.

The seller can also go through his legal representative in the UK who will make the digital declaration in his place.

There is no need to create a list of buyers and PSP, adequate control is simple, it is done in real time.

2.11 In the transaction stage, each time the card issuer receives a payment authorisation request, it would first look up the acquirer or PSP on the register. If the transaction is received from an acquirer or PSP not on that list, then the responsibility for making the split defaults to the card issuer. In this case, the issuer could make the split by retaining 1/6th of the payment amount⁷ and remit this to HMRC. This could be an automated process.

Comment: With DAGTVA there is no intermediary involved between the payer with the value of the VAT extracted by "split banking payment" and the Treasury. The VAT included in the payment also does not pass through a bank account sequester the time of the split banking payment but in a temporary memory (buffer memory).

2.12 If the acquirer or PSP is on the register of approved parties, the card issuer could release the full amount of the transaction. At this point it would be expected that the acquirer or PSP would then split the appropriate amount of VAT and remit it to HMRC periodically, potentially on a daily basis in line with usual settlement periods. Depending on the options outlined in section 3 below, this could be less than 1/6th if, for example, not all the goods are liable to VAT at the standard rate. The remainder of the payment (minus any fees) would be passed to the merchant as normal. If the card issuer default has been triggered and VAT already extracted, the un-approved acquirer or PSP would simply pass the full amount of the remaining sum (minus its own fees) to the merchant.

Comment: The process presented above is far too complicated when it is so simple to extract VAT on a bank payment by the buyer's bank, with the tax clearance, knows how to split the payment and credit the VAT to the Treasury.

2.13 The inclusion of the banks in this process provides a fall-back in the event that the acquirer or PSP is non-compliant. In an ideal scenario the banks would not need to effect the split as they could trust this would be done by a different party in the chain. However, HMRC considers that including them in the process acts as an important safeguard that could act as a deterrent and potentially remove any incentive for a merchant and their acquirer or PSP to attempt to circumvent the split payment mechanism.

Comment: The banking system is best placed to extract VAT from a payment. The secure environments of HMRC with MTD and the Bank provide a total guarantee of equal treatment for all and against any attempt at fraud.

2.14 Additionally, the inclusion of the customer’s bank in the mechanism allows for the split to be effected even if there is no other intermediary involved.

Comment: Same comment as in § 2.11

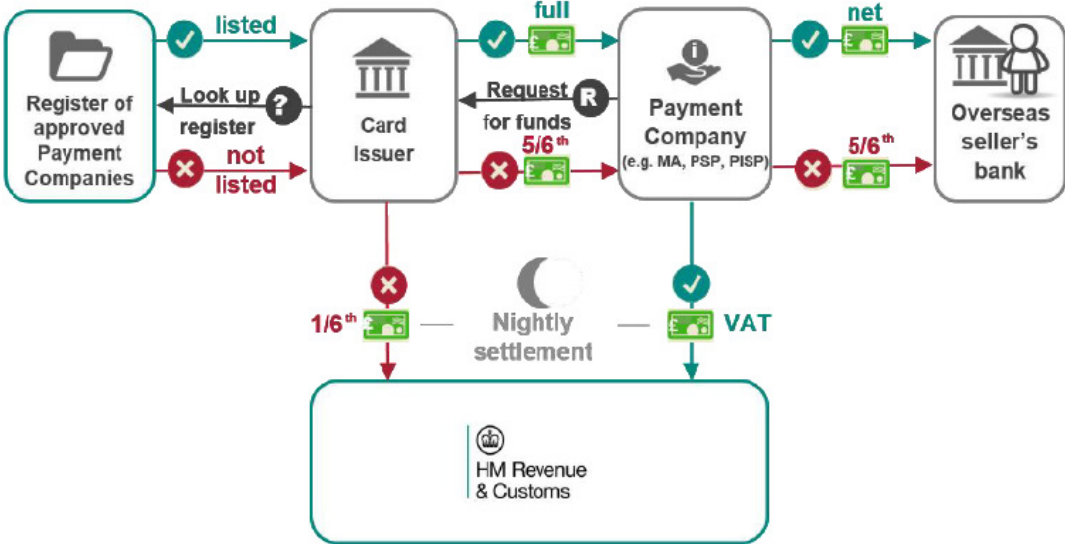
2.15 The government anticipates that compliance by the acquirers and PSPs could be enforced by the card schemes. Schemes issue licences to acquirers authorising them to operate, and an acquirer’s licence may be revoked if it does not adhere to any regulatory requirements. It may be possible to build in adherence to the split payment rules into this process. If this process worked effectively, it could potentially mean that an acquirer that failed to effect the split would be unable to operate in the UK.

Comment: No license to issue, everything happens between the seller, the buyer, the HMRC, the banks. However, banks will need to receive HRMC approval to implement the split banking payment.

2.16 In the reconciliation stage, HMRC would credit the merchant’s VAT account with the amount received from either the acquirer or PSP, or, as applicable, the card issuer. The merchant would be responsible for informing HMRC of any errors.

Comment: There can be no mistake since it is the HMRC that verifies the invoice and confirms or modifies the tax clearance to the bank receiving the payment.

2.17 A diagram of this potential process can be found below, and in annex A.



Question: Do you think the government’s emerging thinking on a mechanism for split payment is workable? If not, how would you improve it?

Commentary: A split payment mechanism is feasible but without the unnecessary intermediaries presented on the above schema.

Question: Do you think the use of the card issuer as a fall-back option would provide an effective safeguard for the mechanism by creating sufficient incentive to encourage merchant acquirers or PSPs to register with the scheme?

Comment: the use of the issuer of the card as a fallback option is not a credible option because the future of the payment is by telephone, there will soon be no more cash or checks, or bankcards. We cannot build a control system based on an option that must disappear in the future (end of cash in Sweden and Denmark in 2020!).

Online Marketplaces

2.18 A number of respondents to the call for evidence commented that they did not necessarily believe a 'one-size-fits-all' approach could work, and advocated different options for different scenarios. Others felt that HMRC should aim to keep the solution as simple and as streamlined as possible.

Comment: With DAGTVA we use a simple and universal solution that can work with all forms of indirect taxes (VAT-RST-GST-TPS). It should also be noted that since September 2012, none of the world's leading international indirect tax specialists has been able to find a failing in the indirect DAGTVA tax system!

2.19 With this in mind, the government believes that the mechanism outlined above could be adapted slightly if the seller uses an online marketplace.

Comment: With DAGTVA there is no difference in process between a national transaction, and cross-border whether it is done in the context of e-commerce or not.

2.20 When a marketplace is involved it is more closely associated with the transaction and usually holds sufficient information to be able to identify the actual VAT liability of the goods. The government is aware that online marketplaces operate in different ways and have different business models, and wants to explore whether it would make sense for the online marketplace to effect the split for transactions that go through their marketplaces. For nonmarketplace transactions, the process would be as outlined above. Card issuers and acquirers would need to know which transactions are taking place via an online marketplace and which are not.

Question: Do you think that marketplaces, when they are involved in a sale, could have a role to play in effecting the split?

Comment: It must be kept in mind, with all the previous comments, that it is not the role of the market places to deal with the taxation applied to transactions.

An invoice is produced with the product correspondence and analytical assignments and on these analytical assignments correspond VAT rates. It is the e-filed invoice (from the seller, the buyer or both to the HMRC) that: verifies, modifies and distributes between NET and VAT automatically.

All businesses, including e-commerce, produce an invoice for each sale, which is controlled by the tax authorities in order to be able to correctly charge the VAT, and will be applied to the payment. It is not for companies to have a role in this area, the only role they have is to produce wealth and bills.

3. Amount to be split

3.1 In exploring potential split payment models for overseas sellers, the government has given much consideration to how much VAT should be split from each transaction. Many respondents to the call for evidence stressed the need for clarity on this crucial point.

Comment: With DAGTVA the situation is clear, see the commentary in § 1.3

3.2 In several other countries that operate some form of tax withholding, only a small amount of the tax is withheld at the point of sale, and the merchant is responsible for declaring the remainder to the tax authority.

Comment: It is a palliative to lose as little tax as possible for the Treasury. It is very difficult to apply and expensive to manage.

With DAGTVA, VAT or other indirect tax on payment, is never paid to the seller. It is paid NET amount with proof of automatic levy of VAT on the payment of the buyer. In the case of a cross-border transaction in the VAT environment, VAT on the buyer's payment is paid to the seller's state. What balances the accounts and responds to § 5.4 of this call for contribution where I quote: "PSD2 states that the total amount of a payment made by a consumer must be transferred to the recipient by a payment provider". Payment is in this case the State of the seller who will not pay VAT to the seller, since on sales the VAT applied is a VAT to collect. It's all profit for the seller's state which has nothing to do, the VAT or GST is directly credited by the foreign country.

To end this comment, I already wrote that the tax that was created on the sales bill was, at this step, a tax on production. It can not be otherwise.

This begs the question: Why would the UK pay a production tax in another country that enforced this tax on an invoice? To recover a tax on the production is the business of the tax authorities of this country, it is the subject of this above paragraph where certain countries apply a withholding tax at the point of sale. It is clear that the country of the buyer is not affected by this operation. This is what happens in the US with the GST / TPS. In addition, if we consider that PSD2 is a European regulation, it will not affect the UK after the Brexit no later than 2020. This observation implies that with DAGTVA, the EU and other countries will have interest in finding agreements with the UK to continue paying taxes on productions in other countries! It would therefore be the UK that would be in the position of master of the game in the negotiations even if it has transposed in its law of January 13, 2018 by the SI2017 / 751, the PSD2 law on which UK can return later with the Brexit.

3.3 Some stakeholders have suggested the UK could do the same. Doing so would only guarantee the collection of a small percentage of the tax due, but would serve to quantify the total amount due, and from whom, thus theoretically making it easier to collect the remainder.

Comment: see the comment of the preceding paragraph.

3.4 HMRC takes the view that withholding only a smaller amount of the tax does not address the fundamental problem, as it still provides non-compliant overseas businesses outside the UK's jurisdiction the opportunity of not paying the correct amount of tax.

Comment: This is true.

3.5 Instead, HMRC has developed 3 potential options for collecting as close to the full amount of VAT as possible, although it recognises that it will always be necessary to allow for adjustments to be made.

Comment: With DAGTVA and the tax clearance, there is no adjustment to make.

3.6 Many respondents said that, in general, the parties in the payment chain do not know the VAT liability of the goods being sold, and even if one party did, sharing that information between parties would be difficult.

Comment: An intermediary has no economic interest in knowing the amount of VAT in a payment. It would require that he has access to detail of the invoice that can be complex with different products with different VAT rates. An invoice does not circulate in a payment.

3.7 Using current messaging standards HMRC understands it may be possible for the merchant to provide the acquirer or PSP with enough detail to determine the actual VAT liability. In this case, the acquirer or PSP could split the exact VAT amount.

Comment: With DAGTVA, only the HMRC is authorized to issue a payment splitting order to the buyer's bank.

3.8 However, this may not be possible in all cases, and even if it were it relies entirely on the merchant being compliant. Although the government agrees with the many respondents that said that ensuring the correct amount of VAT is paid will always involve some degree of human involvement by the seller, HMRC feels that this option is too reliant on the overseas business, and an alternative method would be more suitable.

Comment: In a cross-border transaction and in all other cases as well, the seller must always produce a sales invoice. It is not the foreign seller that interests us, it is the buyer in the UK who will want to recover the VAT of his purchase in B²B and force the seller to declare his sales bill (see the commentary of § 1.3).

And as the foreign seller will be obliged to make this declaration in B²B will make this declaration also in B²C because it will apply the same declarative procedure in B²C.

I bring here some details about cross-border B²C transactions.

With DAGTVA, when the banks will create a bankcard, the bank ask the fiscal number of the card's holder and possible, the tax number will also be written or not in the Eprom memory of the bankcard. As soon as there is a credit card creation, the bank communicates instantly to the HMRC the correspondence of the credit card number and the tax number of the holder. It is then easier for a payment without tax clearance (payment impossible) that the bank requests this automatic information from the HMRC which, for its part, will check if there is a statement from the seller ... and so on.

3.9 The options described below do not rely on any party in the payment chain knowing the actual VAT liability of any single transaction. This should make the process less burdensome for all parties involved in processing payments.

Option 1- standard rate split

3.10 Option 1 involves assuming every transaction is liable to UK VAT at the standard rate, currently 20%. This is the easiest option for the party performing the split, as the amount of each transaction to be withheld is always the same.

Comment: unenforceable, because in a payment it is impossible to know if the purchase is not an acquisition exempt from VAT. On a check, nobody knows the amount of VAT to be levied!

3.11 This option does not take into account any input tax⁸ an overseas business may incur. It is unlikely overseas businesses will incur large amounts of UK input tax but they will nevertheless wish to deduct the small amount they do. As the output tax⁹ will already have been paid, every time they submit a return they will be due a repayment from HMRC.

Comment: In the context of cross-border B2B transactions, this is what has been applied in the EU since 1993. It would then be up to the State (UK) to charge the VAT via the e-bill of the final seller in the UK, with the difference that the UK will keep this tax directly in its coffers upon final payment without going through exemptions within companies and VAT differentials.

It should be noted that there are no more global VAT declarations in companies that would apply DAGTVA. The VAT is definitively processed for each transaction.

3.12 For overseas businesses that do not sell exclusively standard rated goods this option would work less well. Although it could be argued that businesses in this situation would be no worse off than many UK businesses that sell predominantly zero- or reduced-rated goods, and who incur substantial amounts of input tax which is refunded to them by HMRC at the end of each VAT period, the government thinks it is likely that online businesses that sell goods with different VAT rates would not see this option as being fair and proportionate.

Comment: Indeed for foreign companies that sell goods at reduced rates, following European directives, it would be impossible to apply the standard principle.

So it's a solution to give up.

It must be borne in mind that with the Brexit in 2020, the UK will regain its free will to manage the VAT and, if products return to the UK with reduced sales rates on invoices as defined by the European regulations of the EU VAT Directive, it is not certain that these products remain in the UK at the same level of reduced rates.

In any case, it is the digital declaration of the invoice which will determine it and it is the management of the "Tax Clearance" which will make the necessary adjustment. The VAT will be levied for the Treasury by "split banking payment" and returned to the State of the seller if agreements in this direction are concluded. It must be remembered that the tax applied on the sales bill is, at this transaction's step, a production tax that does not concern the UK, which when the product arrives in its UK territory will apply a local VAT.

It is the problem of the country of the seller to recover the production tax mentioned on the invoice, within the framework of the Brexit, it would not be, unless agreements, not the

problem to manage by the UK which will apply to him a local VAT in relation with the British economy. So a total control of taxation in the UK!

3.13 One advantage of this option is that it encourages overseas businesses to register for VAT (as they are currently legally required to do). The only way an overseas seller can ensure it pays the correct amount of VAT is to make accurate declarations on its VAT return; failure to do so results in them paying more to HMRC.

Comment: If this solution to the standard rate option was still retained, which I do not believe (comment above), you should know that with DAGTVA registration of foreign companies is still mandatory.

Option 2 – Flat Rate Scheme.

3.14 The existing Flat Rate Scheme provides a simplification to small businesses, allowing them to apply a flat rate to all their sales.

Comment: Flat rates are always unfair and do not stick to economic realities. With DAGTVA these small businesses would only have to seize their e-bills and if there are few e-bills each month, they could seize them directly at the HMRC.

No more VAT returns and the VAT on purchases reimbursed by closing the bank shuttle with an immediate self-financing. However, as on the e-bills there would also be the amount NET, no more statements of turnover! It is the best for the small businesses.

3.15 A number of different rates exist, and each business choosing to use the scheme is responsible for applying the rate most appropriate to their industry. The rates are calculated based on the average input tax claims within different industries, and act as a proxy for the actual amount of VAT due. They are reviewed periodically by HMRC.

Comment: It is not the responsibility of companies to choose the most appropriate VAT rate for the products they sell. It is the national blueprint of taxation that matches the analytical allocations with the VAT rates. It is the Legislator's matter and obligation to define taxation, not companies.

3.16 Option 2 involves mandating overseas sellers to use the flat rate scheme, using one of a small number of new flat rates for this purpose. This could also include businesses over the current maximum threshold for eligibility for the existing scheme.

Comment: It is a palliative and very difficult to apply and with an expensive management.

3.17 This option retains simplicity for the party effecting the split, whilst also being more proportionate as it does not withhold in the first instance more tax than is due.

Comment: This option may not be suitable for complex invoices where several products have different VAT rates.

3.18 Further, by removing the ability or need to reclaim input tax this option could simplify the process for overseas businesses, and decreases the risk of repayment fraud for HMRC, which could otherwise be an unintended consequence of option 1.

Comment and clarification: The UK input VAT is an output VAT mentioned on the invoice in the seller's country. When this tax crosses the border and returns to the UK, it becomes an input VAT.

If we remove the input tax at the step of the foreign e-bill there is no more risk of fraud because there is no longer VAT to defraud. As stated in the commentary of § 3.12, nothing then prohibits to apply a local VAT on purchases that would not be refunded to the seller's State. We then find the "Zero" tax on production written on the bill, a dry loss for the seller's State. It is not certain that this solution will please exporters and will propose by the EU or other States! It would then be up to each State to recover its tax on production, a lot of work!

3.19 However, this option may not result in a completely level playing field. Any individual business with input tax higher than average for its sector would pay slightly less tax under a flat rate than if it accounted for VAT in the usual manner. This means they may retain an unfair competitive advantage over UK businesses with a turnover above the eligibility threshold and which are therefore ineligible for the scheme.

Comment: As I wrote in § 3.16, thresholds, averages or uniform rates solutions have always negative consequences for tax equality.

Option 3 – net effective rate

3.20 Option 3 builds on option 2, but does not form part of the existing flat rate scheme. Instead the flat, or 'net effective', rate is specific to each individual overseas business, rather than an average across particular sectors.

3.21 It is similar to other existing accounting options, such as annual accounting, whereby a business pays in advance instalments an estimate of the total VAT due in that year, then makes one return at the end of the year to reconcile the actual amount. The estimate is based on the final amount owed in the previous year.

Comment: With DAGTVA the VAT procedure is finished to the nearest cent for each transaction, there are no estimated payments in advance, reconciliations nor adjustment over the previous year, the VAT is collected in real time of the bank payments.

3.22 Under this option, each overseas business would be responsible for calculating its own rate by comparing its total output tax and input tax for the previous year, and communicating this to the party responsible for effecting the split, and to HMRC. At the end of the year, the business would submit a return to HMRC in the usual manner, and pay or be refunded any difference. The figures in the return would then be used to calculate the net effective rate for the following year.

Comment: 1) As I write in § 3.15, it is not the responsibility of the companies to choose the most appropriate VAT rate for the products they sell. It is the national blueprint of accounts that matches the analytical allocations with the VAT rates. It is the Legislator's business to define the State's taxation, not the companies.

2) And according to the preceding paragraph, with DAGTVA the VAT procedure is completed to the nearest cent for each transaction, there are no payments estimated in

advance, reconciliations or adjustment over the previous year, the VAT is in Treasury funds in real time bank payments.

3.23 The party effecting the split would then apply this rate to all that merchant's sales, and would only have to alter the amount it withheld once per year. This is particularly effective when the merchant acquirer or PSP effects the split, as described in section 2, due to the contractual relationship between two parties.

3.24 If the party effecting the split does not receive this information from the business, it would revert to option 1.

3.25 This option has the same advantage for HMRC as option 1, in that it is in a business' interest to register and provide accurate information, as that way it can ensure it does not pay more tax than it is obliged to. It also ensures, like option 2, that the party effecting the split is not concerned with the actual VAT liability of each individual transaction.

[Comment: See previous comments.](#)

Summary of options

3.26 The government's emerging thinking is that option 3 is probably the most suitable and the one to focus on going forward. One of the original design principles, which many respondents agreed with, was that any split payment mechanism should be fair and proportionate, and the government believes this option best meets that test. Combined with the built-in incentive to comply, this option appears to be the most effective.

Question: Do you agree with the government's assessment of these options for determining how much should be split from the gross payment?

Answer: I do not agree with this assessment of the government proposing a solution which is neither fair nor proportionate and that VAT is not a thing that must be treated without accuracy. The application of the modern economy requires that many specific details be taken into account and especially in the taxation's domain, that are the source of the financial means of the State.

Question: Are there any other options you would suggest to further simplify the process of calculating the amount to be split?

Answer: I think I have proposed a split payment option, simple, that can be quickly implemented. But above all, for the UK, it is a solution: before, during the negotiations and after the Brexit when in 2020 the VAT Directive of the EU will no longer apply to the UK. With the DAGTVA system the UK will be able to impose its system of tax levy against the EU, foreign companies, world taxation and not suffer the opposite. The UK will be in a strong position to negotiate in the last year before Brexit (see § 3.2).

4. Other key considerations

Scope of split payment mechanism

4.1 Some respondents to the call for evidence suggested that the government should not restrict split payment to overseas sellers, but that it should be extended to cover all online sales. Others suggested it should also cover offline sales in the UK.

Comment: This is what DAGTVA does where all transactions are fiscally correctly processed, even those that are not subject to VAT by deleting the "Excluding VAT" with the arrival of the zero rate, so by bringing in the world of VAT the whole economy of the UK.

4.2 Two main reasons were given for this. Firstly, some felt that introducing split payment for domestic transactions poses fewer challenges than doing so for online transactions. They argued that if the government intended to introduce split payment in the more complex case, it would make sense to also do so for the simpler case.

Comment: With DAGTVA there is no difference in the domestic and cross-border procedure.

4.3 Secondly, several payment operators cited the potential costs to them of developing the technology required to implement split payment, and said **it would be more cost efficient to operate split payment in all cases**, rather than having to operate two separate systems in parallel.

Comment: This is what DAGTVA does, but for the potential cost of the split banking, with DAGTVA, today the accounting departments of companies reconcile the accounting entries directly with the banks payments through the banking interfaces of the accounting software's. The cost of these operations is negligible. It is necessary to have only an internet connection with an HTTPS secure account with a special protocol for this type of computer link. It is the same procedure used by DAGTVA to make the declaration of the invoice but towards the tax authorities.

The declaration process is automatic when the invoice is created with virtually no cost without loss of time. "Time is money"!

The cost of these operations is therefore not to be taken into account. The development of interfaces already exists in other countries. It seems to me that the ones that would be most appreciated for use in the United Kingdom would be those used at GCC-UAE or in Spain. France and Germany are also developing software together.

It must also be remembered that the costs are compensated by the frauds recovered.

4.4 The context for exploring the viability of split payment in the UK is to help tackle non-compliance by overseas businesses selling goods online to UK consumers. Nevertheless, the mechanism HMRC are consulting on in this document has been designed in such a way that it could be adapted to have broader application in the future if necessary. The government is of the opinion that it is sensible to have a view to the longer term when considering innovative reform ideas such as this.

Comment: The majority trade union Federation UNSA Finance Ministry and PM services at Bercy/Paris presented DAGTVA as a "perfect system for withholding the VAT at source",

and in a distant future the possibility to collect also, at source, the income taxes but with the total confidentiality for the workers in companies (Only in French - see the website).

Question: Do you think the scope of split payment should be limited to overseas sellers, or should HMRC expand the scope to include online UK businesses?

Answer: the scope of the split payment must be applied to all transactions and in the commentary of § 4.1: This is done by DAGTVA where all transactions are fiscally correctly processed, even those which are not subject to VAT by deleting the "Excluding VAT" with the arrival of the zero rate, thus bringing into the world of VAT the whole economy of the UK.

Future-proofing

4.5 Many respondents emphasised the importance of ensuring any proposal developed by HMRC now is not made obsolete by future developments in the payment industry.

Comment: DAGTVA takes into account in the future: the payment by telephone with the problems posed by transactions "peer to peer" and the disappearance of cash.

4.6 One of the aims of the European Second Payment Services Directive¹¹ (PSD2), transposed into UK law on 13 January 2018 by SI2017/751 The Payment Services Regulations 2017, is to make it easier for new businesses to enter the payments market.

Comment: Depending on the progress of the Brexit negotiations, the United Kingdom may or may not reconsider its position with its SI2017 / 751 directives. In any case with DAGTVA, the United Kingdom after the communication of these intentions in the taxation domain, the United Kingdom would be the master of the negotiations simply because it imposes its tax structure outside its borders for all those who trade with it.

4.7 In particular, it is expected to increase the prevalence of payment initiation service providers (PISPs), allowing the customer to initiate a payment directly, rather than via their bank. Any model designed now would therefore need to ensure that innovative financial products brought to market by PISPs are treated in the same manner as, for example, the card issuer from the perspective of legal obligation to participate in the split payment process.

Comment: With DAGTVA, the only one to accept to receive a payment is the banking system and it can only process this payment by order of the tax authorities. Payment initiation services (PISP) will then behave as approved banks.

4.8 One of the design principles, which was almost unanimously agreed with, was that the party responsible for performing the split should be defined in legislation.

Comment: As I wrote in the commentary of § 3.15, *"It is not the responsibility of companies to choose the most appropriate VAT rate for the products they sell. It is the national chart of accounts that matches the analytical allocations with the VAT rates. It is the Legislator's*

business to define taxation, not businesses. "

But also it is up to the legislator to define the entity responsible for the payment splitting.

4.9 The government believes the legislation could be drafted to make it clear that wherever an entity is responsible for passing the money for a sale either to the merchant or to an unapproved merchant acquirer or unapproved PSP, whether a card issuer, a PISP or other provider of electronic payment products to consumers, then that entity becomes the entity responsible for effecting the split. This way, any future developments in the payments industry should be captured.

Comment: Useless, with DAGTVA there is no intermediary between the payment containing the tax and the treasury coffers.

4.10 The government also recognises the emergence and rapid development of other technologies (such as blockchain or distributed ledger technology), which could be used to not only increase compliance and reduce errors but also improve the administration of the UK VAT system, and believes any future use of this technology should be able to complement any split payment mechanism.

Comment: The blockchain technology is a temporary craze that will not last for two main reasons: slow processing with only 7 operations per second maximum and expensive maintenance cost in terms of datacenter and energy consumption beyond the reasonable in the context of COP21, for unknown users that pay nothing! Today there is an alternative to the blockchain, the technology RAID5 that brings the best results and used today on all datacenters. The blockchain is the worst of the worst in IT technology for tax authorities.

Question: What changes do you anticipate as a result of PSD2? Will the existing parties, such as merchant acquirers, PSPs, or PISPs, continue to have a role to play in the future?

Answer: Only acquirers and companies subject to VAT are impacted by DAGTVA, not the intermediaries of digital payment.

Errors and other adjustments

4.11 A number of respondents to the call for evidence suggested that one of the design principles should be that the merchant retains ultimate responsibility for ensuring the correct amount of VAT is paid. Parties within the payments industry do not want to be held accountable for errors caused by the sellers refusing to engage in the process.

Comment: With DAGTVA, the VAT to be collected (Output VAT) is never put back in the economic circuit, the seller is paid NET amount. The digital payment industries (excluding approved banks) are not affected by the movement of funds. They will be only responsible for the background movements excluding VAT to collect. With regard to the deductible VAT, it can transit, as today in the payment of invoices by the buyers. These intermediaries receive only the global payments without access to the tax breakdown of the latter. They will not be in any case responsible for the payment content.

4.12 Currently, each VAT-registered business (and those that are required to be registered) is responsible for ensuring it pays the correct amount of tax, by submitting regular returns to HMRC declaring the amount they owe, and paying that amount.

Comment: With DAGTVA, it is done for each e-filed invoice and each VAT payment included. But for the payment of the tax (VAT), it is deducted from the payment in the buyer's bank.

4.13 HMRC does not intend for the introduction of split payment to replace or remove this requirement. The only difference will be that the payments to HMRC will in effect already have been made when the VAT return is submitted.

Comment: Idem § precedent.

4.14 Compliant businesses already make any necessary adjustments to previous returns by accounting for them on the next. There are a number of reasons why this might be necessary. For example, goods originally intended to be exported may be sold with zero VAT, but if the goods are not actually removed from the UK, VAT at the usual rate becomes due later. Or a business may have already paid VAT charged to a customer to HMRC, but if that customer should subsequently fail to pay, the business is entitled to reclaim the VAT amount from HMRC.

Comment: To answer this paragraph, start by the end of the question.

- 1) With DAGTVA, the seller company does not pay in advance the VAT to collect which it declares on its sales invoice (output VAT).
- 2) "a company may have already paid VAT invoiced to a customer at HMRC". Impossible situation. DAGTVA works in real time, a company subject to VAT never pay a VAT charged to a customer because it is on the payment of this customer that the VAT is levied and not on the account of the seller company.
- 3) "but if that customer should subsequently not pay". With DAGTVA the company that sells never collects the VAT to collect, it is paid by the bank shuttle amount NET.
- 4) "the company has the right to claim the amount of VAT from HMRC ". If this company is not paid, it can not claim from the HMRC a VAT that it has not paid. In any case, the company would be paid NET amount,
- 5) It can be assumed that "if the goods are not actually removed from the United Kingdom ", billing "e-field" sales is reported to the HMRC is pending a buying declaration from the buyer. In the meantime it is a sales bill for which the HMRC knows the name and the country of destination and have a look on this transaction.
- 6) If the destination of the goods changes to the United Kingdom, there will be no option but to sell the goods to the United Kingdom with VAT. The foreign sales invoice will have to be cancelled and then re-created in the United Kingdom by the seller for a new local buyer and charged VAT for this new buyer.

4.15 In the same way, it is anticipated that businesses subject to the split payment mechanism would still be responsible for making adjustments as required. This would include both correcting any errors where the split may have been performed incorrectly, and also making adjustments inherent to the designs of the options described in section 3 (such as for input tax in the case of option 1, or to the net effective rate in the case of option 3).

Comment: With DAGTVA companies are not subject to the split payment. It is their payments that are subject to it. Adjustments and corrections are made at the HMRC level by checking the invoice with the chart of accounts to match the analytical affectations with the VAT rates.

Refunds

4.16 The issue of how refunds from the seller to the customer should be handled has been a common concern among many stakeholders. Specifically, the question of who should refund the VAT element of the price the customer paid.

Comment: With DAGTVA there is no refund of VAT to the seller, the Output VAT collected on the payment is then directly credited to the Treasury. In B²B transactions where this payment contains the deductible VAT (Input VAT) for purchases, this VAT is automatically refunded to the company that has just paid, by closing the bank shuttle.

This possibility gives for the companies an immediate cash-flow on the purchases and opportunities of self-financing which do not exist today to favor the investment.

As stated above, the VAT to be collected (Output VAT) on the sale is never returned to the seller, the input VAT is refunded immediately to the buyer, which means that; in the B²B transactions the State and the Public Treasury, as today, have no money in the transaction, the VAT is perfectly neutral for companies, which confirms that companies, between them, say they work "without tax". VAT is a tax on consumption that does not include inter-company economic exchanges.

4.17 In normal circumstances, the business would refund the full amount including the VAT element. When the refund occurs in the same VAT period as the original sale (and so has not yet been included on a return and the VAT has not yet been paid to HMRC) this does not cause any problems.

Comment: With DAGTVA, the "timing" of VAT processing is different.

There are no global declarations of VAT which disappearing and never calculating a VAT's differential for the Treasury or the company, they also disappears. The "reverse charge" applied to the deductible VAT in B²B is made for each transaction. The VAT treatment is completed for each transaction at the level of: companies, ultimate consumers, tax authority and the Treasury.

4.18 The problem that any business subject to a split mechanism would face is that, having never received the VAT element in the first place, refunding the full amount negatively impacts its cash flow until it can make an adjustment on the next VAT return.

Comment: With DAGTVA this problem no longer exists for the simple reason that the VAT to be collected (output VAT) is no longer paid to companies, the VAT deductible (input VAT) is refunded by closing the shuttle bank. There can be no negative impact on the cash flow. It is the opposite, this "reverse charge" is paid (in B²B) immediately with the benefits of an immediate cash flow with the possibilities of self-financing of the companies whereas today, you have to wait for the payment of the VAT's differential for the same benefits.

4.19 One possibility to resolve this could be to make use of the current settlement process, which takes place daily. This would allow any refunds to be reconciled with each day's sales during each settlement period.

Comment: With DAGTVA this is not done over a period, which can be a day, but on every transaction.

4.20 In this way, the government hopes that consumers' rights will be unaffected and the ease and speed with which refunds can be given will not reduce.

Comment: With DAGTVA, VAT is totally neutral and transparent for companies. For regard the ultimate consumers, for them nothing changes they pay, like today, "all taxes included".

Question: Do you agree with the government's thinking regarding how errors, adjustments, and refunds could be handled? Do you think there are better ways of resolving these issues?

Answer: With DAGTVA I can not answer this question directly because I am talking about a system with DAGTVA about an indirect taxation that works differently from what is proposed.

But not to escive the question:

- 1) Errors and adjustments are checked automatically and without human intervention by the HMRC (DAGTVA and MDT in 04/2019) on e-billing certainly in the international standard format SAF-T developed by the OECD (for the future international treatments of the cross-border transactions).
- 2) Refunds only occur on the deductible VAT in B²B when the Treasury is certain to have levied the VAT on the payment. This is the guarantee that the VAT that will be refunded will be previously in the treasury coffers. This sequence of operations may seem unnecessary, but it must be kept in mind that it is when the refundable VAT is refunded that the HMRC orders the buyer's bank to pay the NET amount and also pay a payment to the banking system for the work done (a percentage of the amount of VAT paid on frauds recovered elsewhere).

5. Development and implementation

Technological development

5.1 The government is aware that businesses in the payment cycle will need to make changes to their systems.

Comment: With DAGTVA the accounting software will have three small interfaces with the HMRC probably planned and mandatory in MTD (free interfaces developed by accounting software providers, no fees for companies).

5.2 HMRC is committed to taking account of business costs and implementation issues in taking this forward.

Comment: developments in accounting software to respond to MTD will be supported for fees by software vendors for the simple reason that the cost of developing this type of interface is derisory and that if a company can not have the mandatory changes in its software's, it will change accounting software provider.

5.3 The government is also aware that the various parties in the payment industry will need time to design and build these systems. The engagement with stakeholders so far suggests this could be between 3 and 5 years.

Comment: This could be much faster, as the similar declaration system DAGTVA / MTD is already mandatory for April 2019, all that remains is to create the interface between the HMRC and the banking system. The latter must respond as quickly as possible to requests from HMRC, failing which he will not be able to execute the split bank payment. An "HMRC" special bank with an agreement "split banking payment", can be created for this purpose, which would accept these payments where VAT is present, could put pressure on the banking system to update technical developments everywhere. A bank that does not accept these developments will lose all these (B)usinesses and all C²B transactions too. In this case, for this bank, it will be time to close the door and put the key under doormat!

Question: If you or your organisation is involved in the development of new payment technology, how long would you estimate it would take to create a system capable of implementing any of the proposals in this consultation? How much do you think it would cost?

Answer: DAGTVA consists of two distinct parts that may not be activated at the same time.

1) The declarative system what is planned in the UK with MTD for April 2019, but DAGTVA, for instance, establishes the tax clearance to apply on the payment. Many countries have already worked on the implementation of electronic invoice declarations but the only ones with India and GCC-UAE control the sales invoices with those of the purchase. This is the declarative system of DAGTVA described in 2012. Without this declarative system it is impossible to inform the payer's bank of the amount of VAT or GST to be withdrawn from this payment. The HMRC, which has already thought of the problem with MTD for April 2019, would gain a lot of time to directly take over the GCC-UAE solution. The GCC-UAE took four months to implement its declaratory system committed in

January 2018. In India it was around six months that was needed but the conception error due to excessive centralization forced the Indian tax authorities to suspend until April the control of invoices. It takes less than a year to dispatch the declarative system to companies. The introduction of MTD for April 2019 seems like a reasonable timetable.

2) The split banking payment which requires banks to split the payment as it may already be in the UK like in France on the profits of financial products. Each bank receives an agreement to perform the split. The bank is free to refuse. It then takes the risk of no longer being able to process B2B transactions and thus lose all its accounts of enterprises subject to VAT. No bank will refuse to apply the fully automated and paid split banking payment. The DAGTVA's split banking payment solution is currently not applied anywhere in the world, it could be possible to use the SEPA code to identify the payment and the tax clearance assigned to it.

In fact, that is required; it is to provide the indexed tax clearances on the payments available to the bank.

On the IT framework this does not pose any technical problem. To test this process, it can be used a pilot bank that may be a state bank and then dispatch the process to other banks. It should be known that the current system of VAT in the UK can work without problem and in parallel with the system DAGTVA or that which would be set up by the HMRC.

Question: Is there anything else the government can do to enable the implementation of split payment?

Answer: DAGTVA is a simple and universal solution which is also looked with interest by the USA to set up a levy system comparable to VAT with its advantages while keeping the actual GST, an obligation if there is not want to modify the Constitution in the USA with an impossible agreement between 52 States.

Since its release in September 2012, no one among the world's leading specialists in indirect taxation has been able to fault the DAGTVA indirect tax levy system. It is a universal system that is independent of the taxation system used: VAT -RST -GST -TPS.

European Union law

5.4 **PSD2 stipulates that the full amount of a payment made by a consumer must be transferred to the recipient by a payment provider. Therefore, under existing EU law, it may not be possible to implement a split payment mechanism as is proposed in this consultation.** However, the EU is also looking at split payment as a possible VAT reform for the future.

Comment: As I wrote for § 4.6, depending on the progress of the Brexit negotiations, the UK may or may not reconsider its position with its SI2017 / 751 directive.

In any case with DAGTVA, the UK would be the master of negotiations by the mere fact that it would impose its tax structure outside its borders for all those who trade with it. It will also be very easy for the UK to test the cross-border transactions directly between the four major nations that compose it, without having to ask permission from a foreign country to set up this technical device to levy VAT.

5.5 **The UK's withdrawal from the EU may also allow the UK to develop a split payment model without being bound by the constraints of EU VAT law, and the**

government will take this into account in its continuing development of these proposals.

Comment: This is what I propose with DAGTVA, In 2020 the VAT Directive of the European Union should no longer, unless agreed, apply to the UK. It seems to me important to have a system of indirect taxation for the UK that will enable it to cope with national and international tax constraints.

6. Summary of consultation questions

1. Do you agree that the merchant acquirer is the best placed party to effect the split of VAT from the gross payment? If not, who do you think would be best placed and why?

Comment: In B²B transactions the merchant acquirer cannot be the best placed to apply the split payment, for the simple reason that at his level he is a payer and it is not up to him to determine what should be taken as VAT on his payment. The information on the tax on the sales bill corresponds to a **tax applied on the local production** with a local rate; it is not yet VAT defined out of UK (cross-border transaction). This tax is determined according to the production and taxation criteria of the foreign company, following the country's tax guidelines. These two criteria may not correspond to the desirable indirect taxation in the UK after Brexit.

The tax authority (HMRC) receives the tax declaration e-filed, then verifies it, before determining the "tax clearance" and possible correct it before using in bank by the split banking. HRMC exercises a total control over the procedure.

It is therefore not up to the company to determine the taxation to apply to a transaction; despite the presence of a correspondence between a product and its analytical assignment which was defined abroad in another economic context.

The best placed, in the most secure and reliable environment is the banking system.

2. Do you think the government's emerging thinking on a mechanism for split payment is workable? If not, how would you improve it?

Commentary: A split payment mechanism is feasible but without the unnecessary intermediaries presented on the schema.

3. Do you think the use of the card issuer as a fall-back option would provide an effective safeguard for the mechanism by creating sufficient incentive to encourage merchant acquirers or PSPs to register with the scheme?

Comment: the use of the issuer of the card as a fallback option is not a credible option because the future of the payment is by telephone, there will soon be no more cash or checks, or bankcards. We cannot build a control system based on an option that must disappear in the future (end of cash in Sweden and Denmark in 2020!

4. Do you think that marketplaces, when they are involved in a sale, could have a role to play in effecting the split?

Comment: It must be kept in mind, with all the previous comments, that it is not the role of the market places to deal with the taxation applied to transactions.

An invoice is produced with the product correspondence and analytical assignments and on these analytical assignments correspond VAT rates. It is the e-filed invoice (from the seller, the buyer or both to the HMRC) that: verifies, modifies and distributes between NET and VAT automatically.

All businesses, including e-commerce, produce an invoice for each sale, which is controlled

by the tax authorities in order to be able to correctly charge the VAT, and will be applied to the payment. It is not for companies to have a role in this area, the only role they have is to produce wealth and bills.

5. Do you agree with the government's assessment of these options for determining how much should be split from the gross payment?

Answer: I do not agree with this assessment of the government proposing a solution is neither fair nor proportionate and that VAT is not a thing that must be resolved without accuracy. The application of the modern economy requires that many specific details be taken into account and especially in the taxation's domain, the financial means of the State

6. Are there any other options you would suggest to further simplify the process of calculating the amount to be split?

Answer: I think I have proposed a split payment option, simple, that can be quickly implemented. But above all, for the UK, it is a solution: before, during the negotiations and after the Brexit when in 2020 the VAT Directive of the EU will no longer apply to the UK. With the DAGTVA system the UK will be able to impose its system of tax levy against the EU, foreign companies, world taxation and not suffer the opposite. The UK will be in a strong position to negotiate in the last year before Brexit (see § 3.2).

7. Do you think the scope of split payment should be limited to overseas sellers, or should HMRC expand the scope to include online UK businesses?

Answer: the scope of the split payment must be applied to all transactions and in the commentary of § 4.1: This is done by DAGTVA where all transactions are fiscally correctly processed, even those which are not subject to VAT by deleting the "Excluding VAT" with the arrival of the zero rate, thus bringing into the world of VAT the whole economy of the UK.

8. What changes do you anticipate as a result of PSD2? Will the existing parties, such as merchant acquirers, PSPs, or PISPs, continue to have a role to play in the future?

Answer: Only acquirers and companies subject to VAT are impacted by DAGTVA, not the intermediaries of digital payment.

9. Do you agree with the government's thinking regarding how errors, adjustments, and refunds could be handled? Do you think there are better ways of resolving these issues?

Answer: With DAGTVA I can not answer this question directly because I am talking about a system with DAGTVA about an indirect taxation that works differently from what is proposed.

But not to escive the question:

1) Errors and adjustments are checked automatically and without human intervention by the HMRC (DAGTVA and MDT in 04/2019) on e-billing certainly in the international standard format SAF-T developed by the OECD (for the future international treatments of the cross-border transactions).

2) Refunds only occur on the deductible VAT in B²B when the Treasury is certain to have levied the VAT on the payment. This is the guarantee that the VAT that will be refunded will be previously in the treasury coffers. This sequence of operations may seem unnecessary, but it must be kept in mind that it is when the refundable VAT is refunded that the HMRC orders the buyer's bank to pay the NET amount and also pay a payment to the banking system for the work done (a percentage of the amount of VAT paid on frauds recovered elsewhere).

10. If you or your organisation is involved in the development of new payment technology, how long would you estimate it would take to create a system capable of implementing any of the proposals in this consultation? How much do you think it would cost?

Answer: DAGTVA is composed of two distinct and independent parts that may be activated in a different timetable. But, it is impossible to implement first the split banking payment without and before having an effective declarative system.

1) The declarative system what is planned in the UK with MTD for April 2019, DAGTVA, for instance, is the only process which proposes the tax clearance to apply on the payment.

Many countries have already worked on the implementation of electronic invoice declarations but the only ones with India and GCC-UAE control the sales invoices with those of the purchase. This is the declarative system of DAGTVA described in 2012. Without this declarative system it is impossible to inform the payer's bank of the amount of VAT or GST to be withdrawn from this payment. The HMRC, which has already thought of the problem with MTD for April 2019, would gain a lot of time to directly take over the GCC-UAE solution. The GCC-UAE took four months to implement its declarative system committed in January 2018. In India it was needed around six months, but the conception error due to excessive centralization forced the Indian tax authorities to suspend until April the control of invoices. It takes less than a year to dispatch the declarative system to companies. The introduction of MTD for April 2019 seems like a reasonable timetable.

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In fact, that is required; it is to provide the indexed tax clearances on the payments available to the bank.

On the IT framework this does not pose any technical problem. To test this process, it can be used a pilot bank that may be a state bank and then dispatch the process to other banks. It should be known that the current system of VAT in the UK can work without problem and in parallel with the system DAGTVA or that which would be set up by the HMRC.

11. Is there anything else the government can do to enable the implementation of split payment? Please feel free to include any other information you think is relevant in your response.

Answer: DAGTVA is a simple and universal solution which is also looked with interest by the USA to set up a levy system comparable to VAT with its advantages while keeping the actual GST, an obligation if there is not want to modify the Constitution in the USA with an impossible agreement between 52 States.

Since its release in September 2012, no one among the world's leading specialists in indirect taxation has been able to fault the DAGTVA indirect tax levy system. It is a universal system that is independent of the taxation system used: VAT -RST -GST -TPS.

This document speaks only about the split payment but DAGTVA is also the possibility to refund to the poorest, those who spend everything in consumption except housing costs, the consumption taxes, a solution to give them access to the banking system and, may be, lift them out of poverty. It is on this topic that I have given a conference at the OECD WP9 in the context of the phone payment and the disappearance of cash in Sweden and Denmark in 2020 (on the website).