HM Revenue & Customs

Alternative method of VAT collection - Answer DAGTVA -

Call for evidence
Publication date: 20 March 2017
Closing date for comments: 30 June 2017

Contents

(Annex A-B-C are not adjoined at this document – see the original)

1.Introduction

The issue

1.1 There has been a large increase in online shopping in the UK in recent years, with many goods sold to UK consumers by overseas sellers using online marketplaces. To satisfy consumer demand for rapid delivery, overseas sellers now routinely store their goods in the UK.

1.2 Under existing VAT legislation, businesses who are VAT registered (or are required to be registered) must charge VAT on relevant sales to their customers. VAT registered businesses are expected to collect VAT and remit it to HMRC at regular intervals, usually quarterly. The business is also required to submit a VAT return detailing the net VAT owed to HMRC.

1.3 When goods are in the UK at the point of sale, the overseas sellers are required to register for VAT in the UK regardless of the level of sales. In these circumstances, the seller must charge and collect VAT. Many overseas sellers are not VAT registered – or if they are VAT registered, they are not always collecting the appropriate amount of VAT. The government wants to ensure a level playing field, removing any unfair advantage to overseas sellers.

1.4 Through this call for evidence, we want to explore solutions to address the three key factors within the current system that create this opportunity for non-compliance:

- Businesses based in overseas jurisdictions, but with VAT obligations (to register and pay VAT) in the UK
- The time lag between the consumer paying for the goods and the business later remitting the VAT element to HMRC;
- Where the VAT is paid by a UK customer to an overseas business which then may or may not pay it over to HMRC in due course.

1.5 The growth in shopping via online marketplaces has resulted in significant losses of VAT. HMRC estimates that the losses from overseas businesses selling goods to UK consumers via online marketplaces was £1-1.5 billion of VAT in 2015 -2016.

What the government has done already

1.6 The government announced new measures at Budget 2016 to strengthen HMRC's powers to tackle this issue. As of September 2016, HMRC can direct overseas businesses to appoint a tax representative in the UK and can make online marketplaces jointly and severally liable for the VAT of overseas businesses who do not comply with UK VAT rules. HMRC has already started to use the new measures with immediate success on first cases where notices have been issued. As a result of joint and several liability notices issued, non-compliant overseas business are being removed from online marketplaces. This acts as a strong deterrent to overseas businesses evading VAT.

1.7 As these goods are often stored in UK fulfilment houses for distribution to UK consumers, HMRC consulted on and will introduce a Fulfilment House Due Diligence Scheme from 2018. Fulfilment houses will be required to join the scheme, carry out due diligence checks on their overseas clients or face penalties

1.8 These measures deliver a step-change in HMRC's ability to tackle this problem. In parallel with the timeline for implementation of the new measures, HMRC has already seen, over the last year, more than a tenfold increase in online overseas businesses applying to register for VAT – from 700 in 2015 to 8,700 in 2016. Using existing powers, HMRC is already taking action against fulfilment houses, assessing for unpaid taxes and seizing goods where appropriate, working with Trading Standards and Border Force. HMRC is grateful for information that assists in tackling this type of evasion. Whilst the new measures are proving effective they do not solve the problem altogether. The government recognises the need for longer-term solutions to keep pace with changing business models to ensure the efficient collection of tax.

1.9 The government wants to ensure that VAT collection mechanisms reflect the evolving retail environment. VAT collection has not changed significantly since it was introduced in 1973. There have been significant technological advances in the payment industry, which may facilitate different approaches to VAT collection and help reduce fraud. HMRC is therefore exploring alternative solutions for collecting VAT in real time through payment technology.

1.10 The UK is not alone in its experiences. Jurisdictions across the world are confronting similar challenges. There are broader conversations taking place internationally, within both the European Union and the Organisation for Economic Cooperation and Development (OECD), about the future of VAT collection. This includes reviewing the role that technology can play in facilitating the introduction of more efficient and effective collection mechanisms. The European Commission has recently launched a detailed study into the scope for split payment, which for the first time will consider business to consumer sales.

1.11 Alternative collection mechanisms are also being explored at the OECD as many jurisdictions are keen to explore efficient and effective collection of VAT to help drive down fraud. The OECD provides an international forum to help explore possibilities, share experiences and facilitate discussions.

1.12 In this call for evidence, we are seeking views on an alternative method of collecting VAT for online business to consumer sales. We are looking for evidence on the technical feasibility of extracting VAT in real time using payment technology and depositing it with HMRC. This is often referred to as split payment.

2. Who should respond to this call for evidence?

2.1 The government is particularly interested in responses from:

- merchant acquirers
- payment service providers
- relevant businesses
- card scheme operators
- banks
- payment industry representative bodies
- ‘fintech’ companies
- tax engine companies
- representative professional bodies
- accountancy firms

The government also welcomes views from anybody interested in this topic.

Question 1:
Please indicate what type of organisation/individual you are.

Jean-Francois CLOCHEAU

Member IVA - International VAT Association.

Researcher on taxation - Creator of DAGTVA®.

25, rue Xavier Arnozan
33600 Pessac – France
contact@dagtva.com
+33 6 13 01 17 96
(Preferred contact by e-mail).

Presentation:

The DAGTVA indirect tax system is based on:

First Part:

The tax returns e-filed in the on-line declarative system.

Second Part:

The split payment in the banking system.

To explain DAGTVA in a B²B transaction: (you can refer in the web site “dagtva.com” at the front-page, item: preamble and open the slideshow B2B – Domestic transaction, payment by bank transfer,

When an invoice is created in seller businesses account software, a statement is e-filed instantly in real time to the tax authorities (system with some differences implemented in July in Spain with “SII”). With his invoice, the purchaser makes the same tax return e-filed, to his tax authority, in his account software. An automatic index is generating related of the invoice.

When a tax authority receives a purchase tax-return, this tax authority matches automatically if exist the same statement in seller tax authority. In case with differences in the two statements, the tax authorities send a mail to inform the two parts of this transaction and they have a look on this problem. When all is clear in the statements, a tax clearance is generated on purchaser tax authority (more explanations later for this action).

With these tax returns e-filed, the two tax authorities have the turnovers and taxes of these two companies for this transaction, idem for all. In this case, it is impossible to implement a tax avoidance or fiscal evasion.

The VAT collection is modified in its operations and the useless global statement disappears for companies. It is an advance to erase: papers and work burdens to declare the VAT. The cost is negligible for the companies and in tax authorities; it is the same software dispatched everywhere. It is possible also, to implement in UK the Spanish system SII today in test in Spain.

It is the end of the first part of DAGTVA. This only part can be implemented, tested, and verified before the second part: the levying of the VAT on the real time of the payment, the topic of the next **question 2**.

2.2 We welcome written responses from the organisations listed in paragraph 2.1. If you are also willing to engage in face-to-face working groups arranged by HMRC please contact Dympna Kelly using email indirecttax.projectteam@hmrc.gsi.gov.uk

3.Alternative VAT collection mechanism

Split payment concept

3.1 Extracting VAT in real time and depositing it directly with the tax authority is often referred to as split payment. For simplicity this is the descriptor we will use in this call for evidence.

3.2 Our focus in this call for evidence is where the VAT is extracted using payment technology.

International examples

3.3
Split payment mechanisms, sometimes referred to internationally as 'tax withholding' mechanisms, have been implemented in a number of countries. The basis of each approach is often different from a payment technology approach, but they do provide some insight into how a split payment model might work in practice. There are examples[1] of split payment models being implemented in Mexico, Ecuador[2], Peru and the Dominican Republic. In some of these countries, for example Ecuador, when the buyer uses a credit or debit card to pay a retailer the payment is split into the VAT element and the net amount, and the VAT is deposited with the tax authority.

Sometimes only a small percentage is extracted and deposited with the tax authority in recognition of differing VAT liabilities and businesses' cash-flow. In these circumstances, businesses are required to remit the remaining balance due in the usual manner. Businesses selling primarily or exclusively exempt goods may be exempt from the split payment mechanism.

3.4 The means by which split payment operates differs from country to country, but of particular interest to the UK are those countries that effect the split using one of the participants in the payment cycle and deposit the tax directly with the tax authority.

1 VAT Fraud as a Policy Stimulus - Is the US Watching? Richard T Ainsworth

2 https://www.pwc.com/gx/en/tax/indirect - taxes/assets/pwc-indirect-tax-guide-americas-2015.pdf page 91

Case Study – Dominican Republic

Transactions involving card payments have increased in the Dominican Republic and, in January 2005, to reduce VAT evasion the Dominican Republic implemented a VAT withholding mechanism on transactions using credit and debit cards. To facilitate the VAT withholding mechanism, designated 'acquisition companies' act as intermediaries between the credit and debit card issuing banks and the seller who accepts the cards as payment. 30% of the VAT is withheld by the 'acquisition companies' and reported weekly to the tax authority.

Some supplies, such as medicines, books, newspapers and education services, are exempt from VAT withholding and businesses involved in the sale of these goods can request a VAT withholding exemption from the tax authority.

Case Study – Argentina

In Argentina there are 'withholding agents' responsible for implementing VAT withholding and submitting the VAT collected to the tax authority. There are different withholding rates depending on the nature of the transaction. For example, different rates apply to goods and services compared to utilities and telecommunication. Payments through credit cards are also subject to withholding rates. Small businesses are not subject to the requirement to withhold VAT.

Case Study – Ecuador

Ecuador adopted a VAT withholding scheme in 1997 where all credit and debit card companies were designated ‘withholding agents’. This means that the credit and debit companies are required to split all or some of the VAT from the payment and immediately deposit it with the tax authority. This applies to both business to business and business to consumer sales. Additionally, some companies qualified by the tax authority as “special taxpayers” are also designated as VAT withholding agents.Withholding agents are required to withhold VAT from other entities and individuals as follows:

- 30% of VAT on purchases of goods taxed at the 12% rate
- 70% of VAT on the acquisition of services taxed at the 12% rate, except in the case of services supplied by professionals where 100% of the VAT charged must be withheld.

For transactions between two “special taxpayers”, VAT is withheld as follows:

- 10% of the VAT for purchases of goods
- 20% of the VAT for purchases of services

Withholding agents must record the withheld VAT in their accounting records, and must file a return and pay the withheld VAT on a monthly basis.

We would like to build on our understanding of VAT withholding or split payment and are interested in any experiences respondents may have had in other jurisdictions of tax amounts being extracted from payments in real time. We want to learn any lessons from existing practices.

Question 2:

We are interested in any experiences you may have had in countries that operate a split payment mechanism where tax is extracted in real time. We would be like to understand when it works well and when it doesn’t work well.

Answer 2: I am a researcher and it is not up to me to see if the other experiences have any advantages or problems, they are only indications to see if the DAGTVA indirect tax system can bring a better solution in the split payment for the collection of VAT in these cases.

The European Commission in the study of the "Green paper of VAT" in 2010/2011 proposes four solutions to strengthen VAT compliance. In one of these cases, the split payment in the text is described, with a fiscal management in the banking system, where the tax treatments are carried out in the companies' VAT accounts, where the tax authorities certainly have an intrusive look in these accounts inside the banks, where the banking secrecy is not respected. Of course, this solution was rejected by the banking system.

Indeed, it is not the "work" of the banking system to calculate the amount of tax within the payment when this payment arrives. Moreover, the banking system does not have the technical means to do this, because it is possible that this payment reflects an invoice, where several products exist; with different prices and VAT rates. How to do if the banking system does not have access to the details of the related invoice? It is not the “job” for the banking system to analyze an invoice.

DAGTVA brings a solution of this problem and an improvement to the European Commission's proposal in the “Green paper of VAT”. It is the topic of the next question.

Question 3:

We understand that fees and other payments are extracted in the payment cycle. Please provide evidence of how this is done and your thoughts on whether you think the same technology to extract fees could be adapted to extract VAT.

Answer 3: With the DAGTVA indirect tax system, when the payment, VAT included, arrives in the purchaser bank (transfer or payment by bankcard), the index, generated at the invoice’ creation is adjoined the payment and used by the bank to request to the tax authorities, the **Tax Clearance**. This tax clearance calculated in the tax authorities, in the first part (on-line declarative system above) of DAGTVA when the tax authorities have received the correct on-line tax returns e-filed. Tax clearance returned with the same index to bank **for this payment**.

Now the bank has the technical means to split the payment in NET and VAT. Before these operations, nothing is doing in the purchaser’s bank account.

The first consequence of this process is without a Tax Clearance, it is impossible to pay something in the banking system! It is a guarantee to obtain the tax certainty.

If this split payment is effective in the banking system with the DAGTVA indirect tax system, each bank receives an agreement to execute this process and must respect the directives of tax authorities. (Later I explain that the banking system receives remuneration for the executed work).

Now with all these informations, the purchaser’s bank can levied the total payment on the purchaser’s bank account and split the payment in NET and VAT (and may be GST also). The VAT is instantly with the index credited on favour the Public Treasury. There is no intermediary between the taxpayer and the Public Treasury, the amount of the tax not transit in a bank account. The Output VAT is never in the seller’s bank account. For the first time since the creation of VAT, the businesses, with DAGTVA, loose the management of this tax. The trace of VAT appears only on the account software’s in companies, on the invoices.

You can see that the treatment of the VAT (calculation) is out of the banking system where the bank secrecy is respected. All these treatments are automatic, no human intervention and with the IT technology today all these systems exist.

To close this long answer about the question of the all fees external to VAT; in all comments above, I speak about VAT but it is preferable to speak about TAXES, because the DAGTVA indirect tax system is not exactly dedicated for the VAT but also for other indirect taxation systems like: GST – TPS – RST etc…And for all versions of these indirect tax systems.

To confirm the possible treatment of external fees with DAGTVA, please, note that the majority trade union federation UNSA Finance Ministry at Bercy/Paris and the Prime Minister's Office presented DAGTVA as a perfect system for withholding the VAT, which can even in the more distant future, be used for withholding the income tax, process without that the companies has confidential employees information.

At this address: www.dagtva.com/wp-content/uploads/documents/ecofinances_57.pdf

(Sorry is not in English language).

(Magazine Ecofinances N° 57 de January-February - cover page - and pages 23 and 25).

4. Split payment feasibility

Design principles

4.1 In considering a split payment model for VAT we think it is important that we take the work forward under the umbrella of some agreed design principles. As part of this call for evidence we are including some suggested design principles for discussion:

- VAT split payment should increase tax efficiency for both businesses and HMRC
- The split should be initiated at a point in the payment cycle by one of the participants and be driven by payment technology
- VAT split payment should be simple for the seller
- VAT split payment should be invisible to the UK consumer, who will continue to pay by whichever method the consumer chooses, for example credit or debit card or by using a payment service provider
- UK consumers'rights will not be affected
- There should be significantly less opportunity for fraud as the VAT will be extracted in real time in the payment cycle and later deposited with HMRC
- VAT split payment will be in UK legislation (set out in statute)

● VAT split payment should be proportionate and fair and every effort will be made to ensure a level playing field for all sellers to UK consumers

● Every effort would be made to ensure VAT split payment is cost efficient to build, implement and maintain

Question 4:

Do you think these are the right design principles for a split payment model? Is anything missing or is there anything that should be excluded? If you think the design principles should be different please provide evidence on alternative

Answer 4: for giving you, a correct answer at the question 4, I prefer comment each item:

● **VAT split payment should increase tax efficiency for both businesses and HMRC**

Answer: The first consequence of the DAGTVA process is: without a Tax Clearance it is impossible to pay something in the banking system! It is a guarantee to obtain the tax certainty in all domains.

- Abolition of VAT credits, a source of many frauds,
- The seller is paid NET balance; it is the end of the missing trader and VAT carousels.
- Reduction of the budget deficit by better tax revenues,
- Removal of any intermediary for the collection of VAT between the taxpayer's and the Public Treasury,
- Deletion of manual controls on the declarations of each undertaking,
- Removal of manual controls on VAT settlements
- Maximum relief of the "VAT work" charges of the personnel of the Public Treasury,
- Real-time processing by Public Treasury personnel, follow-up of incidents of declarations and regulations,
- Systematic VAT reversal of real-time VAT by levy on the payment, regardless of the method of payment chosen, including cash, irrespective of the residence of the seller or buyer, even if the buyer is not subject to VAT,
- For the Public Treasury, the VAT is in the State coffers in real time bank payments,

For more informations in this topic see the web page “Les avantages de DAGTVA”.

For businesses the Output VAT not transit in the seller’s bank account. For the purchaser the Input VAT is refunded when the banking loop is closed with a total neutrality of the VAT inside businesses with this refunded VAT. Immediate productivity gains, through this cash flow of deductible Input VAT, refunded to the purchaser immediately or in a short time.

For more informations in this topic see the web page “Les avantages de DAGTVA”.

- **The split should be initiated at a point in the payment cycle by one of the participants and be driven by payment technology**

Answer: The split payment is initiated only by a unique participant, the banking system. It is a guarantee to have a secured operation for the stakeholders and in the DAGTVA tax system, it is impossible for one of them to stop the process.

- **VAT split payment should be simple for the seller.**

Answer: The split payment with DAGTVA is simple; it is applied on the payment by the purchaser's bank when the payer is levied on his bank account. The seller is paid net balance when the purchaser's bank receives an order from the tax authorities to pay this NET. With the bank transfer the value of the VAT is added. Operation required for establishing the NET credit advice stipulating the VAT was previously levied on the payment. With this, the account books are balanced with the invoices. Never the VAT return in the seller's bank account. It is the end of the VAT carousels with the missing trader.

• VAT split payment should be invisible to the UK consumer, who will continue to pay by whichever method the consumer chooses, for example credit or debit card or by using a payment service provider UK consumers' rights will not be affected•
There should be significantly less opportunity for fraud as the VAT will be extracted in real time in the payment cycle and later deposited with HMRC

Answer: For the final consumer, in a B²C transaction is the same process but to explain, it is necessary to choose another slideshow on the website, at the page « les figures" and in B²C transactions, please choose:"Visionnez le diaporama du paiement e-com national par carte bancaire." At this address: http://www.dagtva.com/?page_id=95

The split payment is invisible for the final consumer because it is the seller liable to the VAT, which makes the tax return in place of this consumer. Effectively, two cases may be arriving: first, when the consumer pay with his credit card on Internet for example, before the payment this consumer must create an account registered on the seller's website where he gives his contact information for completing the future invoice.

With DAGTVA, when a person will wants a bankcard, the bank asks the fiscal number of this person in the goal to associate the card number and the fiscal number. This fiscal number is writing on the card memory and the bank when the card is created; automatically send this association to the tax authorities where the fiscal number depends. With this, when there is a payment by an ultimate consumer the tax return is made by the business and its tax authority send directly at the purchaser's tax authority the same tax return even this purchaser is not liable at the VAT. After is the same process like in B²B transaction. This process is completely invisible for this consumer and the seller is credited NET balance. In these conditions, it is impossible to implement a VAT fraud.

- **VAT split payment will be in UK legislation (set out in statute)**

Answer: Certainly no, it is only a fiscal adjustment and it is not necessary to register this adjustment in the law because the split payment is a technical operation for withholding the tax and, to obtain this result, to use an IT technical device, no existing laws without the

natural laws. The VAT is not modified, it is always an indirect tax on the payment and the means used to obtain the result are in cause. Only a text must specify that the future VAT tax payment is made by splitting on the payment in the banking system. Each bank receives an agreement and must respect the fiscal directive for splitting the payment. It is possible a bank refuse to execute this splitting. It is not a problem, it is impossible for this bank to have transactions (B²B and B²C) where the VAT is present. This bank can close the door and put the key under the doormat! Never a bank refuses the split payment in the DAGTVA conditions where the bank receives a payment for executing this split payment!
To add another thing; the fiscal adjustment must also specify that the VAT statements are e-filed in real time to the tax authorities when the invoices are created by IT and networks systems. (More details for this item in the answer at the question 9)

- **VAT split payment should be proportionate and fair and every effort will be made to ensure a level playing field for all sellers to UK consumers**

Answer: The DAGTVA indirect tax system is an automatic technical device for levying a tax included in a payment, where this payment is defined by an invoice which defined the NET and VAT.
With DAGTVA, the tax avoidance is impossible and everyone knows this because:

-First; if you do not have an invoice associated with a payment, it is impossible to create the Tax Clearance used to split the payment.
- Second; without this Tax Clearance it is impossible to pay something in the banking system for the precedent raison.
- Third; to return at the origin of the Tax Clearance in tax authorities, exist systematically the e-filed tax return and nobody escape at the invoice creation and at the tax return.

Inside the payment, this tax levying is very clear for all. When a payer pays something he knows a part of his payment go systematically and directly to the Public Treasury and he knows too that he contribute to gives the means for all and also nobody escape to this process. The contribution is better perceived by the taxpayer in the tax justice.

- **Every effort would be made to ensure VAT split payment is cost efficient to build, implement and maintain**

Answer: With the precedent explanations and the automatic technical means, the technical cost is very cheap. But in all these operations on behalf the Public Treasury, the banking system receives a payment on each transaction.
Today in France, each year, 28 Billions banking operations by bankcard are made with a very small amount. For example to pays a car park or the highway. The cost is heavier for the banking system and increased each year.
With DAGTVA, in the process, after the Public Treasury is credited with the VAT extracted from the payment, the tax authorities are informed of this tax levying.
The Net of the transaction is always in standby in the “dummy memory or exchange file” in the bank but not in the bank account to wait the authorisation to make the transfer of this NET balance on favour the seller’s bank account.
With this authorisation, the tax authority pays the bank for the “job” executed. It is possible that 1% to 5% of the VAT present in the payment may be paid at the bank. To reconcile the accounts in the Public Treasury, this payment is not levied of the VAT present in the payment but by a fund build with the recovered fraud in others economical sectors.

With this process, we have the means to build, implement and maintain the split payment in the banking system.

Payment technology

4.2 Our initial work, including with the payment industry, has helped us to understand the payment cycle and to determine how VAT might be extracted and deposited with HMRC.

4.3 From our conversations with the payment sector we understand that the payment cycle involves many different participants each playing a different role in moving money from consumer to seller. The main participants in a payment cycle as we understand it are cardholders (consumers), merchants (sellers), merchant acquirers, card issuers and card schemes.

4.4 We understand the card schemes manage and control the operation and clearing of card payment transactions according to card scheme rules. The schemes are responsible for passing card transaction details from the acquirer to the issuer and for passing payments back to the acquirer which in turn pays the merchant. At Annexes A-C we have included flow diagrams that represent our understanding of how the payment cycle works in the context of overseas businesses selling to UK consumers via online marketplaces. Annex A illustrates an overseas seller selling to a UK consumer where the goods are outside the UK at point of sale. Annex B illustrates an overseas seller selling to a UK consumer where the goods are in the UK at point of sale. Annex C is an illustration of the payment cycle as we understand it.

4.5 We understand that there can be other parties involved in a payment cycle such a s payment service providers (PSP), but for simplicity we have not included them in the illustrations.

Question 5:

If you are an organisation that plays a part in the payment cycle but you are not captured in our illustrations in Annex C it would be helpful if in your response you outlined how you interact with the payment cycle.

Answer: I am not an organisation that plays a part in the payment cycle but a researcher in taxation and my works on this sector have led me to present DAGTVA in several international conferences where I had explained the complete cycle to levy the VAT inside my indirect tax system in different situations:

After the DAGTVA' presentation at the Financial Commission of Senate in Paris,

Conference in Vienna at the International VAT Association with a DAGTVA' presentation about a B²B / B²C transactions, in the cross-border and e-commerce environment.

Conference at the OECD WP9 with a presentation inside the future generalised payment by phone, where I had explained the solution to levied the indirect TAX (VAT-TPS-GST-RST…) in presence of a peer-to-peer transaction(C²C), for example in Sweden and Denmark when the cash disappear in 2020.
You have in the page "Les conferences" all the slideshows and associated texts.

DAGTVA tax system open the door of an international taxation system and in Brexit negotiations, the possibility to propose a unique indirect tax system in cross-border transaction, it is an argument for staying inside the European efficient marketplace.

4.6 In high level discussions with the payment sector industry we have explored how a split payment might work in practice, where the split might occur and some of the likely challenges with split payment both in terms of implementation and operations. We discussed what information would be required to effect the split. The consensus from these discussions is that the party effecting a split would need to know as a minimum:

- If VAT is applicable, for example, do the goods attract VAT?
- The location of the seller
- The location of the buyer

4.7 Those we spoke to thought the payment cycle participant most likely to be able to effect a split would be the merchant acquirer as they are in possession of most of the information available such as:

- The customer's card number
- The country where the card is issued
- The merchant's name and address
- The value of the transaction
- How the money is collected, such as face to face or online

4.8 The overall consensus from those we spoke with is that a split payment mechanism is possible but clearly there would be a need for evolutionary changes to enable implementation.

Question 6:

Please can you comment on our understanding of how the payment cycle works and whether it is correct. Please provide evidence about any gaps or misunderstandings.

Answer: When I began to define the DAGTVA tax system, it was to bring a solution to stop the VAT carousels, where the missing trader stole the VAT and the income tax on his benefits.
For this, it is imperative to extract the VAT on the purchaser's bank accounts before the Output VAT enter in the economical circuit. It is also in the aims of OECD and European Commission which wants that the VAT must be levied where there is the real consumption.
The only simple solution, like you want, is to extract directly the VAT inside the payment, the goal of this survey, when the withholding is made in the purchaser's bank account.
In your proposal, in B²B transaction, you hope the buyer gives you, may be, directly the VAT and pay the seller Net balance. It is not a correct balance in regard the invoice created in seller's accounting books because the seller makes a global tax return where this output VAT is specified and, like with DGATVA never the output VAT returns on the sellers' bank accounts but with DAGTVA the global statements of VAT are useless because, the VAT treatment is done, transaction by transaction. The global statement disappears, the VAT credit with many frauds disappears and the difference between Input VAT and Output VAT is only an indicator inside the accounting books. To conclude this paragraph, with your system, it is also impossible for the seller to justify that the Output VAT is not in his possession.

In the DAGTVA tax system, the tax authorities give an order to levy the VAT on the payment and another order to pay the NET balance. It is not the responsibility the two parties of the transaction to decide the taxation, all powers are in the HMRC services. Also, these two parties have no means to stop the VAT withholding.
These operations are much secured because DAGTVA use the secured environment of HMRC for: tax returns, tax clearances and use the banking system much secured to execute theses bank operations.
Never the secrecies of: the banking system, tax authorities and between them, are in cause or violated.

In your proposal, I think it is the door open to the underground black market without invoices. Because the purchaser (in B²B) has the possibility for paying or not paying the VAT, he wants a purchase without the VAT directly in a settlement with the seller. Why not!
And in your proposal, what do you do if the purchaser is not liable to VAT?

Question 7:

Please can you comment on our assumptions about how a split payment model could work. We welcome evidence about the best way of exploiting payment technology to extract VAT from payments in real time to deliver a sustainable model for the future. Please provide as much technical detail as possible.

Answer: The last answer can give you some details on your assumptions. The entire DAGTVA website is made for giving you a correct answer for all these questions. All explanations before are certainly pertinent for you. You can also take in consideration the answer given at the **Question 5.**

Question 8:

Based on your own understanding and experience of the payment cycle, at which point do you think the VAT split should take place?

Answer: to precise, it is imperative to extract the VAT on the purchaser's bank accounts before the Output VAT enter in the economical circuit because when the invoice is created and existing a payment, at this moment the property of Output VAT is the State and must be in State coffers. Before the IT technologies, it is impossible to do the withholding inside the payment. Today it is easier to do and it is also in the aims of OECD and European Commission which wants that the VAT must be levied in the environment where there is the real consumption.
The only simple solution, as you want, it is to extract directly the VAT inside the payment, the goal of this survey, when the withholding is made in the purchaser's bank account.

Challenges and enablers to the development of a split payment model

4.9 Conversations with the payment industry have helped us understand some of the likely challenges we would face in developing, designing and implementing a split payment mechanism. Conversations centred on the time to develop, the likely costs and difficulties in being able to identify the transactions requiring split payment mechanism activation. We also discussed potential problems around the geographical location of the different payment sector participants and whether that might pose jurisdictional challenges.

4.10 We discussed possible solutions to the difficulties identified. We explored the idea of simplifying the VAT rules which could allow for a flat amount to be split rather than the full VAT amount. Together we looked at how the payment sector might be compensated for costs incurred in the build and implementation of a split payment mechanism.

Question 9:

What are the key challenges, from your perspective, to the development of a split payment model for VAT? Please provide evidence about the challenges you have identified and any solutions you think might help in overcoming those challenges.

Answer: Today we have the means to achieve the goals in indirect taxation on the fight against fraud and to obtain the tax certainty.
Now, what are you doing with the actual taxation rules?
By chance, with DAGTVA is not necessary to modify the rules.
Even if United Kingdom is in Brexit negotiations, the references at the European taxation rules are very important.
When I have presented DAGTVA at the IVA in Vienna, I bring the proof that with this new indirect tax system, it is useless to modify the European VAT Directive 2006/112/CE.You know the importance of this document with 129 pages used today! I make this demonstration in front of Mr Donato Raponi (Chairman Head Office TAXUD European Commission). We have all details on the comments of this presentation adjoined with the slideshow. (See the page "Les conferences" all the slideshows and associated texts).
And if with DAGTVA it is not necessary to modify the European VAT Directive 2006/112/CE, it is certainly useless to modify the VAT rules in United Kingdom.

Only some adjustments are necessary:

Like it is indicated on the page «l'adhésion à DAGTVA», the companies liable to the tax will have to register on the website of the Public Treasury of their country and must accept the next obligations:

- That the declarations of the creation of invoices are transmitted automatically in real time, by computer means, to the local Tax Authorities that currently manages the VAT for this company (not in a central for the State).
- That the accounting software of the company be equipped with interfaces allowing automatic declarations to the Tax Authorities.
- That the split payment in bank in NET and VAT is automatically applied,
- To choose a bank approved by the VAT Authorities to make the split payment,
- That the VAT to be collected (output VAT) on the invoice will be levied directly on the bank payment by the split banking.
- That the company will be paid NET balance with proof of the withholding VAT on the purchaser bank account.
- That the VAT on purchases be refunded to the company instantaneously by closure of the bank shuttle, (in the VAT environment).

Question 10:

Are there any enablers or new developments in the sector that would facilitate the development of a new collection mechanism for VAT? Please provide evidence about any new developments or technological advances in the payment sector that are relevant to this issue.

Answer: Today's communications with fiber optic allows real-time execution of all online tax returns and banking transactions with accuracy and total security. In France the banking system execute 24 thousands operations per second. There is no technical problem to implement the split payment between the tax authorities and the banking system.
With the DAGTVA tax system, if you analyze inside the transaction, it is the local the banking system that treat the split banking of these transactions and it is the same local treatment in the local tax authority.
This dispatching of "taxation works" is very important to:

- Ensure the quick execution of split banking,
- To prevent the work overflow in a central organization,
- To dispatches the risk of interrupted different services,
- For securing the tax environment and transactions against the attacks,
- Works on a road also can destroy an optical fiber.

If a problem arrives, only a local taxation environment is involved; for example, a fire in phone or network dispatcher in IT networks, outside the secured environment of the transaction:

- The local tax authority conserves and waits to use later the tax returns and the Tax Clearances already established.
- For the banks, the purchaser's bank waits the requested Tax Clearance when the payment arrives in the bank, the payment is in standby waiting for the IT lines to be restored

Question 11:

Do you see a role for the card schemes in ensuring payment sector participants adhere to any future UK split payment legislation?

Answer: Today, if HMRC wants to implement the split payment, nothing changes in the payments sector, it is only a technical process to divide the payment on the orders of the tax authorities. Now, if a payment sector refuses to apply this technical organisation, it will be out of the HMRC guidelines, the treatment of VAT by split payment will be executed out of this sector.
I think, it is impossible to see a payment sector which refuse the "job" because in the DAGTVA tax system, all the parties receive a payment for the tax recovered to benefit the Public Treasury.
Otherwise, in the future generalized payment by phone, the bankcard and credit card like the cheque will disappears very quickly. (In Somalia 95% of payments are by phone, 75% in Kenya and more 50% of payment transactions are made by phone in Africa. It is too dangerous to have cash in the pocket – see the OECD presentation).

Question 12:
Is there any other evidence you would like to submit as part of this call for evidence?

Answer: The international tax landscape is also changing.
You can see this with indirect taxation modified in Spain with the "SII online declaration system". If you add the split payment recently set up in Poland and you have bundled these two systems, we are almost in front of DAGTVA's indirect tax system, certainly with many differences, but that is a beginning.

The important thing is the future. By the end of 2018, when Spain and Poland will deliver results compared to other countries, they will be at the top of the tax certainty. These two countries are working today to create the system possibly set up elsewhere as an international standard of taxation, like the credit cards created by Roland Moreno with the same technical device throughout the world, paving the way for an international tax system.

However, I think, the most important with the DAGTVA tax system is possible to refund the VAT on the purchases make by the poor, because in DAGTVA tax system, the differences between persons and businesses no longer exist. It is this last point I have presented at OECD WP9 with many economical benefits.