

HM Revenue  
& Customs

## Consultation document 20 March to 9 June 2017

### Fraud on provision of labour in construction sector: consultation on VAT and other policy options.

#### Answer

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In the context of this consultation is necessary to define, as you have wrote, the abstract of the final goal in a frame of a better tax certainty. I invite you to refer at this slideshow in the DAGTVA's website and related text presented at the International VAT Association in May 2016 during the spring conference.

It is at his page: [http://www.dagtva.com/?page\\_id=4432](http://www.dagtva.com/?page_id=4432)

At this paragraph: (Vienne – 12 Mai 2016. Présentation de DAGTVA à la conférence de printemps en Autriche à l'IVA – International VAT Association : [le diaporama](#) et [texte attendant](#), en Anglais)

If you want, to simply the study, you cannot take in consideration the cross-border line in each slide and you obtain a domestic transaction with:

1. The introduction of 'split payments' for online sales.
2. A domestic VAT reverse-charge mechanism for all sectors.

It is the exactly topic of this consultation but with a different chronology describe below:

1. A B<sup>2</sup>B transaction is created between two companies which work on the same building project,
2. The two invoices affected at this transaction (seller and purchaser, are certainly same without the ID companies) are e-filed instantly at each tax authority when they are created and validate in the account software in each business with the on-line declarative system on the both sides (sellers and purchasers – see the website page dedicated for the declarative system),
3. The existing and equality between these two statements are verified before the Tax Clearance is calculated by the tax authority on purchaser side,
4. The purchaser's bank with the index of the transaction wants this Tax Clearance when the payment arrives,

5. With this Tax Clearance instantly returned by the tax authority, the purchaser's bank know who to split the payment,
6. The purchaser's bank levy the all taxes payment on the purchaser's account and split this payment in VAT and NET,
7. The purchaser's bank send instantly the VAT on favour of the Treasury and inform the tax authority (can be made in a single operation by the same tax office),
8. When the Treasury and tax authority have the tax credit confirmation, the tax authority send at the purchaser's bank an order to pay the NET balance on favour the seller's bank account.
9. At this step, the purchaser's bank, with this, received the payment for the work executed on behalf the tax authority for this transaction (can be 1% to 5% of the amount of VAT levied), sum allocated and withdrawn on the global tax fraud recovered before, and can be applied only on B2C transactions if necessary (topic out of this text),
10. The Tax Clearance (information at this step) is joined with the banking transfer, information compulsory for the seller's bank to produce a credit advice where is specify that the VAT was levied by reverse-charge by the purchaser's bank,
11. The seller is paid NET amount, never the output VAT returns on the seller's bank accounts,
12. The VAT is refunded on favour the purchaser (a different timing for this operation is possible). In GST system tax this step not exist and bring the proof that with the DAGTVA tax system, differences between VAT and GST no longer exist.

As it was describe before the topic of this consultation is respected.

## Comments

This new tax system can be applied in all economical sectors. The last taxation events shown that in Spain the new on-line declarative system “SII” must be applied in July 2017 and in Poland the split banking on the payment is effective in some economical sectors. If you put together these two systems, you obtain the tax system describe in DAGTVA, where the VAT is levied on favour the Treasury on the payment by the banking system after the on-line tax-return.

## Questions

### **Q1: Do you think the scope of a reverse charge for construction services should exclude supplies to final customer?**

No, if the final customer it is not registered as a company liable to the VAT.

Yes, if the final customer is registered as a company liable to the VAT. It is possible that the final customer is a business liable to the VAT which wants to build his office.

### **Q2: Do you think a labour/non-labour threshold for the application of the reverse charge should apply throughout the supply chain? If so, at what level should it be set?**

Today it is very difficult to verify a single transaction dispatched on two different tax authorities (seller/purchaser) where in each tax office receive the global statements of VAT of these companies and where the detail of transaction have a heavy cost in time and person. Today the tax authorities have no technical means to make this tax check-up and reserve only the control over a threshold, on expensive transaction. Is the cause today of this threshold. Now, for example with DAGTVA, if the tax authorities can be levied the VAT directly on each transaction, the threshold is a useless waste of taxation revenue.

When DAGTVA was presented at the Financial Committee of Senate in Paris, the senators appreciate that the first €uro in a transaction (replace by £ over the Channel) was taxed inside the DAGTVA tax system. With DAGTVA the level of the threshold applied on a transaction B2B no longer exists.

### **Q3: Are there any implications we should consider if there is no designated main or principal contractor?**

If the VAT is levied and completed on each transaction when the payment arrives in the banking system, is not necessary to design a main contractor or a subcontractor. Each company pays its invoices with the tax inside. With the DAGTVA tax system when the payment is effective, the tax included inside is levied directly from the taxpayer to the Treasury without intermediary. The output tax never returns on the bank account of the seller. The notion of main contractor or a subcontractor no longer exists.

### **Q4: Can you think of reasons why architects, engineers or other similar types of businesses should not be treated as main contractors for reverse charge purposes? Are there other similar recipients of such supplies who should have the same treatment?**

## **What type of services should a reverse charge apply to?**

I think that is not a question in relation for the profession. An invoice is an invoice and no matter what the company does if this company is liable at the VAT. In the DAGTVA tax system, there are the analytic assignments describe in the invoice which define the taxation applied not the quality of a business. All services are taken in consideration where these services are invoiced.

## **Q5: What are your views on using the CIS definition as the reverse charge definition? Are there other options that should be considered? Should there be a threshold?**

Like in other previous answers, the reverse-charge is defined by the status of the company in front of the tax authority and the invoices created where the VAT appeared. There is no threshold the first £ is taxed.

## **Q6: Do you have any views on whether a narrower CIS definition or alternative qualifying criteria could be used to exclude small businesses instead of a sales based threshold?**

I think is necessary to use a new paradigm and think at the invoice level and not about rules and status of small companies. Same answer, the first £ is taxed.

## **Q7: Would setting a threshold by invoice value create uncertainty and lead to a confusing application of the reverse charge?**

With the DAGTVA tax system, the reverse-charge is applied on favour of all companies liable at the VAT and on all invoices created by these companies. There is no confusing in the application of the reverse-charge.

## **Q8: Are there contracts that do not lend themselves to the application of a threshold in this way and if so can you provide details please?**

I think is not a problem of contracts, but to know if existing between companies some transactions confirmed by payments and justified by invoices where the VAT appears and in B<sup>2</sup>B transaction with the DAGTVA tax system, you have total taxation neutrality (point exposed in front of Mr Donato Raponi - Head Office TAXUD European Commission).

## **Q9: If you think a threshold based on contract value would work, do you think it should be based on sales made monthly, annually or a combination?**

If the taxation and the reverse-charge in B<sup>2</sup>B environment are applied on each transaction, consequences by: the real time on-line declarative system and by split-banking on the payment. It is out of the problem of contract and on the statements' schedule.

**Q10: If you disagree please can you explain why a reverse charge might affect self-billing or applications for payment arrangements?**

With the DAGTVA tax system the VAT appear on the invoice in B<sup>2</sup>B transactions. The purchaser pays his invoices all taxes (VAT+NET), the banking system splits these payments and sends the VAT to the Treasury and the NET is paid to the seller. At the end of the banking loop, the VAT is refunded on favour the purchaser. It is clear that you have total neutrality in this tax system. This value for all invoices and if existing a payment arrangement, the taxation is applied when the payment arrives, possible later the invoice's creation, the Tax Clearance on the transaction waits on the tax authority.

**Q11: Can you see problems with requiring the reverse charge to apply to services supplied by FRS users?**

With the DAGTVA tax system, the taxation is applied on all invoices and not over or under a turnover's threshold.

**Q12: If a reverse charge was to be introduced, how long would you need to make the necessary IT and billings changes after any announcement? Does having a threshold significantly alter this?**

For this question it is necessary to implement the on-line declarative system in relation of the tax authorities and to gives for the banking system the agreement for the split banking on the payment. It is a new paradigm for the taxation. You have the calendar on you hands, the agreement for the companies are mandatory! It is a new declarative system for the VAT, the global statements disappears! The credits of VAT disappear! Never a VAT refunded on behalf a business can be do before the equivalent VAT was levied on the payment. It is the end of VAT carousels!

**Q13: Do you agree that any changes to the CIS should be restricted to companies?**

With the precedent answer the problem is solved. On each invoice's creation, the VAT number is instantly verify on the both sides of the transaction for the two businesses and while existing a problem with the tax administration, it is impossible to deliver the Tax Clearance affected, and if the banking system have not this Tax Clearance, it is impossible to have a banking transaction. The payment in the purchaser's bank is in wait of the authorisation from the tax authorities, all is blocked!

**Q14: We are interested in views on whether changes to the turnover test should only be applied to companies that have not traded before?**

The agreement for the new companies is mandatory. Each new (and old too) company must be implement in his account software interfaces with the tax authorities to accept the on-line declarative system when the invoice is created. While not exist the correct registration between the new company and tax authorities with tests, the new company cannot create an invoice and execute a payment. You can see that is applied for all companies and not define by a threshold on turnover.

**Q15: If the threshold was to be increased, at what level do you think it should be set in order for it to be effective against fraud whilst not excluding too many legitimate businesses? Should the increased threshold apply if an applicant's controlling company already has GPS?**

Please, see the precedent answer.

**Q16: What are your views on requiring customers to notify HMRC of changes of ownership or control of businesses supplying labour?**

In the question 14, I have saw “While not exist the correct registration between the new company and tax authorities with tests, the new company cannot create an invoice and execute a payment.” This value also when arrive modifications if the structure of the company has changed.

**Q17: Would it be feasible to define certain triggers after which contractors are required to determine whether control of subcontractors has changed? How much burden would that place on contractors?**

With DAGTVA in the B<sup>2</sup>B the purchaser wants to have his VAT refunded and obliged the seller to make earlier the e-filed statement of the invoice because, when a tax authority receive a purchases' declaration, the tax authority match automatically if a same tax return exist on seller tax environment. You can see that the control of subcontractors is made in real time and obliged the two parties in the transaction to have a correct registration.

**Q18: Should a different compliance test be set for those directors or shareholders who have not been previously required to fulfil obligations under the Taxes Acts?**

Same answer gives at the precedent question.

**Q19: Are there other options that we should consider for combatting this fraud?**

The topic of this consultation is in the truth to bring a complete solution for the future in the fight against the fraud. The sales with the on-line tax-returns toward the tax authorities arrive in the next days in Spain with “SII” and the split banking in Poland. DAGTVA was plebiscite at each international presentation and can be implemented quickly with a very cheap cost.

1. Account interfaces already exist in other domains, banks for example,
2. The software in tax administration is the same on all local tax authorities,
3. The software in banking system is easier to implement,
4. Each bank receives an agreement to execute the split-banking on the payment.

When an invoice's tax-return is e-filed, the tax authorities have the amount of the VAT but also the turnover in the NET. It is, by this means, the end of the tax evasion.

NOTA: if a bank refuse to apply the split-banking against a payment, it is impossible for this bank to have in the future transactions B<sup>2</sup>B and B<sup>2</sup>C in the DAGTVA tax system. In

this context this bank, close the door and put the key under the doormat! Never a bank may refuse the consequences and the money!

**Q20: What impact are the proposed changes likely to have on your business?**

I am not a business but a researcher in taxation.

**Q21: Are there any specific impacts on small and micro businesses that are not covered in this chapter and chapters 2 and 3? If so, please provide details of the anticipated one-off and on-going costs and burdens.**

- Shock of simplifying the management of companies that no longer collect VAT, they have only to type in their accounting software sales and purchases,
- Deletion of separate declarations of management of VAT to collect,
- Elimination of separate declarations for the management of deductible VAT,
- The VAT regulations deductible by the Treasury in real time or deferred at will,
- Immediate cash flow of value of purchases, source of investment,
- Immediate productivity gains, through the deductible VAT refunded immediately or in a short time,
- Elimination of management workloads related to VAT,
- Maximum simplicity of small business management, no paper, no time loose,
- No cost for the small and other companies with the new DAGTVA tax system.

To conclude, it is easier to apply this indirect tax system on all economical sectors.