

# DAGTVA

## Presentation Finance Committee of the Senate

PARIS June 10, 2015

Mr. President, Honourable Senators, thank you for welcoming me within the Finance Committee, for showing an interest in my works on the reverse charge of the VAT, works inducing economic consequences far beyond this simple reverse charge. I join you in your wishes to fight against fraud detected in various ways. (*Please see what we proposed in the abstract*)

With only ten minutes to present this to you, I'll get straight to the point and start with its origins and position in the current legislative context.

### **At the national level:**

The technical device DAGTVA (**Automatic device for managing the Value Added Tax**) was described as a general principle in November 2011.

From November 2011 till May 2012 controls and feasibility studies at the technical and statutory level were made. In May 2012, a patent was registered at the INPI (*National Institute of Industrial Property*).

In view of the economic consequences, going far beyond the VAT issues, the Presidency of the Republic was informed.

Following several exchanges of correspondence with the Elysée, the President asked the Ministry of Finance to evaluate the device.

In June 2013, the Ministry of Finance, without giving an unfavourable opinion, says that only the legislator is entitled to decide how taxes are collected.

In November 2013, the DAGTVA patent was granted to me by the *National Institute of Industrial Property*.

### **At the European level:**

DAGTVA offers a solution on the split payment acceptable for the banking system which meets the conclusion of the European Commission "Green Paper on VAT".

The previous European Commissioner for Fraud, (Algirdas Šemeta) stipulates that according to European regulations (namely the Directive 2006/112 / EC, each Member State is free to levy taxes as it wishes.

In September 2013, Michel Barnier, at the time Commissioner for Internal Market and Services, sends the DAGTVA proposal to Customs Union Directorate answered that they will look into the matter later as they have already a busy schedule.

At the end of 2013, I answered a European consultation on the distortions of competition in the use of the VAT by public services. DAGTVA device prevents these distortions.

In March 2015, the "EurActiv" website, specializing in information on European affairs, publishes an article mentioning a complete revision of the VAT at EU level in 2017.

In brief, the legislator in each European country has all powers to decide on the tax levy methods implemented without violating European regulations.

Originally, DAGTVA was developed to fight against VAT fraud.

To put a stop to the tax revenues flight, the VAT environment will be used without changes, to avoid years of renegotiation, but we will change its collecting process in other words, its declarative mode and its collecting methods. What we call a transactional chain in computer language.

With malpractice noticed within the business world it is necessary to find a way that does not involve companies for collecting VAT on behalf of the beneficiary state.

**We must then answer four questions:**

- Is the VAT included in the payment or not?
- If a tax is to be charged, how can the VAT amount be determined for this payment? (Nothing indicates on a check the VAT rate to be applied).
- Who will determine the split payment terms between Net and VAT?
- Which institution will split the payment?

**Answers to the questions:**

**Which institution will split the payment? :**

This payment always goes through the banking system, even when it is not subject to VAT. Therefore, the split payment including Net and VAT amount can only be done through the banking system because they are the only one in a position to dispatch the funds to the beneficiaries' accounts in complete safety.

**- Who will determine the split payment terms and conditions (net and VAT)? :**

Since the terms and conditions are decided by fiscal authorities, only the tax authorities are habilitated to do it and no other organization.

It is out of the question to entrust backrooms companies with the implementation of a device conceived by national tax policies.

The bank that receives the funds will have no other choice than apply the split payment terms and conditions decided by the tax authorities.

**So a question arises:**

How do the tax authorities give the banking structures the necessary elements required to split the payment amount between NET and VAT?

The Tax return declaration corresponding to this particular payment must be made by companies for **this current transaction**. It will no longer be calculated ex-post on the companies global declaration.

With this system: **Global declarations and current VAT differential just disappear.**

### **Another question arises:**

#### **- If a tax is to be charged, how can the VAT amount be determined for this payment?**

Today, all companies are computerized. They must have approved accounting software to meet their obligations. Since 1998 all accounting software have interfaces with banking services for account reconciliation. We will apply this system to tax services, which means specialized and encrypted lines become obsolete.

Indeed, **DAGTVA never manipulates funds**, nor does it update bank accounts. The simple Internet Box, with a secure connection existing in every company will do.

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Considering that goods or services can only be purchased with an invoice, let's describe a **B2B transaction in detail:**

**Step 1:** With to the technical device previously described, when validating a sale (net amount + VAT + analytical assignments), the company automatically declares the identified invoice through the internet network to tax authorities. This is immediate!

The establishment of an invoice will simultaneously provide tax authorities with the VAT returns to be collected and the corresponding turnover (sales).

Implementing a VAT fraud becomes impossible.

Tax optimization by wilful concealment of turnovers made locally is also impossible.

As a bonus, a considerable and unprecedented simplification is archived for companies especially for SME (small and medium enterprises) and TPE (very small enterprises) in terms of time spent and paperwork related to VAT returns.

**Step 2:** the buyer will register the identified sales receipt in his company's accounting books, as he already does, and make the same automatic tax return statement as the seller's in order to reduce his tax load. Compulsory statement if he wants to get his deductible VAT back (and authorize the payment to be made).

**Step 3:** at this moment, there has been no payment yet. Once tax authorities (fiscal services of the company buyer) receive a declaration of purchase, they will automatically check whether it matches that of the sale. In case of disagreement, companies are informed automatically and tax services follow the case.

***This is one of series of automatic validity checks of tax returns.***

**Step No. 3a:** Assuming that the statements of sale and purchase are correct, tax authorities instantly calculate the tax to be applied, based on the given information data and prepare the authorisation of VAT extraction that will be asked by the bank on arrival of the payment.

**Step 4:** Once the identified payment arrives at the bank, DAGTVA device automatically requests the authorisation from the tax authority of VAT extraction and enforces the strict tax services guidelines for splitting of the payment.

The buyer is debited the whole amount included VAT; the bank splits the payment of VAT to the Treasury and NET amount to the seller, with notice of tax deducted at source.

### **As a consequence:**

The VAT to be collected by the treasury;

- TVA has never been on the seller's accounting books.
- Nor on the buyer's accounting books
- Nor in the bank account

**Consequently, there is no intermediary between the buyer, the seller and the Tax authorities.**

**Step 5:** The Treasury now credited with VAT orders the refund of deductible VAT to the buyer, by closure of the bank loop. (But there is a short banking loop to avoid these unnecessary transactions).

Benefits of this locked up system:

- There can be no deductible VAT refunded without previously having been previously collected.
- Tax authorities of the Treasury are at zero VAT, it has not paid any money.
- The € 49 billion VAT credits for France, which are source of numerous frauds are deleted.
- **The corporate world will no longer have the possibility to administer the VAT which they have done for over 60 years.**
- Finally transactions between Companies are effectively Tax free.

### **Now a B2C transaction in detail:**

In Step 2 of B2B transaction: *both, the buyer and the seller make tax returns statements.*

In B2C transactions, we will use a subterfuge based on the same principle as in B2B transactions, except that it is the seller, subject to VAT returns, who will declare the VAT in place of the non-taxable buyer, who has no access to declarative procedure for VAT. **This is instant!**

This feature of the procedure leads us to consider creating a possible VAT account for the ultimate consumer and who may eventually recover VAT in specific circumstances as companies do. All taxable persons and final consumers would apply the same rule in a much sought for fiscal equality.

**Another very important point:**

**The DAGTVA device can add up amounts and self assess VAT on transactions paid in cash.**

*All this process is automated, there is no human intervention.*

### **Regarding e-commerce:**

When a book is bought on Amazon Website, we don't know if the server is located in a fiscal paradise or not. With DAGTVA, the bank, receiving the request for payment, will ask tax authorities how to split the payment. In fact at this point, the bank has no specific indications on how to split the payment- namely, is Amazon enterprise exempt or not from the VAT. This process implies that Amazon has made both (sales and purchases) tax reports **in the buyers country**. And it would be the same for all e-commerce companies with customers whose accounts are in approved French banks.

### **In conclusion:**

This device induces new tax flow systems putting an end to a considerable number of tax frauds.

### **Economic impact of DAGTVA:**

- European growth, would be boosted if Europe recovered a 120 billion €uro corresponding to VAT fraud, which is over a third of J-C Juncker program, and this, not only once, but every year.
- Nearly a third of French budget deficit recovered every year on VAT.
- The extreme simplicity of the treatment of intra-EU and international transactions.
- Strengthening of the paid banking system which is a guarantee of economic stability.
- Inviolable technical device compatible with any form of taxation as that of the United States.
- A significant decrease in business taxation and its impact on competitiveness and fight against unemployment.
- An incredible management simplification for companies.
- A greater purchasing power for households thanks to tax reduction means more growth.
- A system in which the most fragile may recover the VAT and consequently increase their purchasing power, the rich don't get richer and companies are not penalized by wage increases.

### **Other more general consequences:**

- Putting an end to distortions of competition present in transactions with public services,
- Using virtual currency like Bitcoin for VAT taxable persons will be made impossible,
- Disappearance of transactions exclusive of taxes, due to generalization of split payment
- Automatic taxation of funds from fiscal paradises will cause a loss of interest in them.
- The necessary justification of funds from the informal economy, making them unusable.
- Finally the inability for companies to pay illegal work in cash.

Mr. President, Honourable Senators, I hope this brief presentation was not too long and I thank you for listening.

Original website : <http://www.dagtva.com>

Original version in French at : [http://www.dagtva.com/?page\\_id=1937](http://www.dagtva.com/?page_id=1937)