

Introduction of a computerised tax audit file by the Luxembourg VAT authorities

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Exporting accounting data in standardised electronic format

Since the Act dated 19 December 2008 relating to administrative cooperation among tax authorities in Luxembourg came into force, any taxable person who uses a computerised accounting system must be capable of providing the Luxembourg VAT authorities (*Administration de l'enregistrement et des domaines*, sometimes hereafter referred to as "AED") – on request - with all electronically available accounting data in accordance with the specifications prescribed by the AED.

At the end of 2009, the AED issued a recommendation¹ governing the technical terms of a standard file (*Fichier d'audit informatisé AED*, hereafter "FAIA") to be used by Luxembourg taxable persons to export accounting data and make them available to the AED - on request - starting 1 January 2011. Additional information is expected to be issued by the AED by the end of the year.

Computerising VAT audits

The AED's objective is to adapt the way they conduct VAT audits, given that taxable persons use computing tools to manage their transactions. While the most common practice is still for the AED to verify transactions on paper files, ultimately, they will analyse the data provided by taxable persons in electronic format using an auditing software application. As they analyse the FAIA, the Luxembourg VAT authorities will be able to scrutinise commercial operations and accounting transactions recorded in the taxable person's accounting systems.

This development should speed up the checks conducted as part of VAT audits and increase their quality, while making them more effective and cost-efficient

As part of this new process, a VAT audit will start with an analysis of the business's internal processes, to ensure that all the data are recorded appropriately in the accounting system. As a result, the scope of the checks might be extended to all computing systems containing data relevant to the determination of the company's income.

Today, under article 70 of the Luxembourg VAT Act, the AED can already require to have access to a significant amount of data (ledgers, accounting records and vouchers, contracts, purchase orders, etc.), including data from computerised systems, where those data exist in electronic format.

¹ The recommendation can be found on the Luxembourg VAT Authorities' website: <http://www.aed.public.lu/actualites/2009/11/FAIA/index.html>

Exporting data in FAIA format

The AED developed the FAIA, a standard file to export data electronically, based on the recommendations issued by the OECD for the Standard Audit File - Tax (SAF-T)².

The objective is to standardise the file to be produced in the event of an audit so that it may meet the tax inspectors' needs and that it may be processed by the auditing software.

The FAIA is a structured XML format, provided for a certain period, which includes the following information:

- general company data as well as information about the software used;
- databases (general ledger, information relating to clients and suppliers, VAT table);
- the data recorded in the general ledger (breakdown of transactions);
- the source documents (information regarding sales and purchase invoices and information regarding payments).

To make the system easier to understand for AED inspectors, the files will have to include the following information:

- detailed documentation on the software's features;
- a description of the system's process and environment;
- a presentation of the control mechanisms which are in place to ensure data reliability.

Under the recommendation, the data and documents requested will have to be submitted to the AED in a timely fashion, regardless of how the company manages its accounting (e.g. in house or subcontracted, document storage location).

The AED should also accept formats other than the FAIA, on the express condition that the files submitted are structured, easily readable, provided in a standard electronic medium and that they include all the fields and data required by AED inspectors. In that case, the AED suggests that specific information on the various exported fields be enclosed to the exported file.

Files should be readable, which means that they should be able to be converted to other formats. Conversely, image files (e.g. PDF; JPEG) or encrypted files may not be used.

In practice, the AED should start asking for the first FAIAs by the end of the year 2011.

² Guidance note for the Standard Audit File – Tax, version 2.0 – 2009

Note that the FAIA's mandatory fields are not as exhaustive as those required by the SAF-T. However, taxable persons can elect to adopt the more detailed SAF-T format.

The AED is expected to provide further information and clarification on how this new requirement will be implemented in the next few weeks. This information will also reflect the questions and comments raised by taxable persons in conjunction with PwC Luxembourg.

To prepare for the introduction of the FAIA, PwC Luxembourg can assist you in understanding and implementing this new requirement:

- **Assessing the recommendation's impact from an accounting and VAT standpoint ;**
- **Reviewing the company's computing environment and data available in the systems with regard to the data requested by the FAIA;**
- **Reviewing the way in which transactions are booked from a VAT standpoint;**
- **Reviewing the company's internal control processes relating to accounting.**

Contact

For further information, feel free to contact the PwC Luxembourg team specialising in this area:

Laurent Grençon

Tax Partner
+352 49 48 48-5769

laurent.grencon@lu.pwc.com

Philippe Pierre

Advisory Partner
+352 49 48 48-5722

philippe.pierre@lu.pwc.com

Karine Bellony

Tax Director
+352 49 48 48-5726

karine.bellony@lu.pwc.com

Xavier Lisoir

Senior Advisory Manager
+352 49 48 48-5785

xavier.lisoir@lu.pwc.com

PwC

400, route d'Esch, B.P. 1443
L-1014 Luxembourg
Telephone +352 49 48 48-1
Facsimile +352 49 48 48-2900

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