Governments are increasingly relying on indirect taxes to generate revenue. For several years, businesses have witnessed the importance of indirect taxation as governments have embraced the shift from direct to indirect taxation.

Within the European Union, many countries have significantly increased VAT rates over the last five years so as to compensate direct tax cuts and social security contribution shortfalls in an attempt to balance overstretched budgets. Countries outside the EU are increasingly seeking to modernise their VAT system or implement a new one. The OECD is revising its VAT/GST Guidelines and the European Commission is about to launch fundamental reforms. On top of that, court cases are multiplying.

As a result, businesses that do not efficiently manage their indirect tax position face the risks of profit erosion, increased cash flow and compliance costs.

Our team helps organisations manage and mitigate their indirect tax position (VAT registration duty, Insurance Premium Tax and Customs and Excise duty).
A VAT team dedicated to your business needs

We have the largest indirect tax team in Luxembourg, which includes more than 60 people. Each team member is part of an industry focus group which gives them a strong understanding of the industry at large and the business constraints of their clients. Members of the team also have a multidisciplinary approach to indirect taxation, reaching out to their PwC peers specialising in the industry concerned, such as banking, insurance, asset management, real estate, private equity and industrial and commercial companies.

We understand your challenges, which are driven by a constantly changing business and regulatory environment. Our dedicated VAT team coupled with our strong indirect tax network makes PwC Luxembourg your partner of choice to help identify both risks and improvements and find the solution for you that is best suited to your unique business requirements.

We have solutions for the following industries and areas:

- VAT
- Industry-focused
- Multidisciplinary approach
- 60 VAT experts
- Compliance and process improvement
- Real Estate
- Banking and Insurance
- Asset Management
- Industrial, commercial and service companies
- Private Equity
- E-commerce
- VAT training programme
- BEPS
- FAIA
**Private equity**

**Your challenges**

VAT can be a significant cost to the private equity industry. Various supplies are made to and through investment vehicles and may trigger VAT if they cannot benefit from an exemption. Funds, investment vehicles and holding companies may have to deal with VAT compliance obligations and liabilities or, depending on their profile, incur VAT charged by their suppliers (at the VAT rate applicable in their country).

A VAT exemption applies to the management of alternative investment funds, making Luxembourg a location of choice for setting up PE funds.

Holding vehicles face issues in determining whether they can recover VAT on their purchases and finding methods to calculate the extent of such recovery.

Funds and investment vehicles must consider both VAT risks and opportunities when setting up and developing their product range.

**How we can help**

- We identify and monitor VAT exposures and opportunities (including e.g. due diligence, “health checks” and assessing VAT risks);
- We implement strategies to mitigate risks and optimise service and financial flows;
- We review financial flows and related documentation; and
- We help you implement efficient structuring in relation to transaction costs, recharges and shared services.

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**Asset management**

**Your challenges**

VAT can be a significant cost to the asset management industry. A VAT exemption applies to the management of special investment funds, and so a range of services supplied to funds are not subject to VAT. However, certain services cannot benefit from the exemption. There are different interpretations of the scope of the exemption across different EU Member States and there is a growing volume of EU case law on the subject.

Furthermore, suppliers providing exempt services (management companies, administrative agents, etc.) have to determine how to recover VAT on their purchases.

Funds and asset managers must consider both VAT risks and opportunities when setting up and developing their product range.

**How we can help**

- We review the VAT treatment of services supplied and received and assist with VAT reporting obligations to monitor VAT risks;
- We provide assistance in securing VAT treatment (advising on supporting documents/reviewing fee arrangements); and
- We propose solutions to mitigate the cost of irrecoverable VAT and we identify savings opportunities.
Industrial, commercial and service companies

Your challenges

Aligning VAT obligations with daily business operations can often be challenging, especially where legal requirements result in additional operational constraints and often additional and/or unexpected costs. VAT rules regarding cross-border transactions can be complex, and making sure your business is VAT-compliant in all the countries in which it operates may prove to be a daunting task. However, it is crucial, as unpaid VAT and fines can often be significant.

Finding an optimal operating model that combines business and tax needs may be difficult when you have to take into account the relevant VAT impacts and consequences for each operator in the supply chain.

How we can help

- We can explore efficient solutions and cost-saving opportunities when dealing with your day-to-day VAT compliance obligations;
- We secure VAT treatment and eliminate risks in relation to daily operations and cross-border transactions;
- We help you find an operating model that takes into account both your business needs and the relevant VAT consequences; and
- We help to VAT-code your transactions and configure your IT systems and we assist with your VAT reporting obligations.

Real estate

Your challenges

VAT challenges will differ depending on whether real estate investments are held within or outside Luxembourg.

Real estate structures are set up in a similar way to PE structures with funds, holding companies and property companies. Although these are two types of businesses, the main challenges in this regard can be very similar from a VAT perspective and relate to three main points: (1) recovering input VAT; (2) the possible use of VAT exemptions on services purchased; and (3) compliance obligations.

For real estate in particular, property companies face challenges such as:

- determining the right place of taxation for services purchased that depends on where the property is located (services connected with immovable property) and more generic services (e.g. accounting, audit, tax advice, etc.);
- justifying VAT recovery in Luxembourg where real estate is held outside Luxembourg (in particular, for property located outside the EU);
- opting for tax on rental income in a timely manner; and
- determining the recoverable VAT amount on development/construction/refurbishment costs and overhead costs.

Furthermore, in the development/construction phase of real estate property located Luxembourg, property companies often have to pre-finance (part of) the VAT charged by their different suppliers, unless they are able to obtain regular reimbursements of VAT from the Luxembourg VAT authorities. This is particularly relevant where a provisional VAT recovery ratio was applied and VAT adjustment with respect to previous purchases must be made.

How we can help

- We identify and monitor VAT exposures and opportunities (including e.g. due diligence, “health checks” and assessing VAT risks);
- We help determine the VAT treatment applied to income and expenses;
- We assist you in finding the best way to recover input VAT (in both the development/construction and operations phases) and help you to calculate input VAT adjustments; and
- We assist in discussions with VAT authorities regarding VAT refunds and reporting.
Banking, Insurance and VAT

Your challenges

Banks and insurance companies are subject to special rules, since most of their activities are VAT-exempt. As a consequence, they cannot recover input VAT in full.

One of their biggest challenges is the absence of clear definitions of services that are exempt. The VAT treatment of certain services (rendered or received) remains uncertain and the exemptions are not applied consistently across EU Member States. The CJEU is regularly asked to clarify the scope of the exemption. The main difficulty for operators, local administrations and tribunals is to interpret the provisions of a VAT Directive from 1977, whereas banks and insurance companies are now global financial players offering and buying complex and innovative products worldwide.

The challenges faced every day by financial institutions are:

- the globalisation of their business leading to the set-up of sophisticated structures, involving the incorporation of subsidiaries/foreign branches and increasing the number of inter-company transactions;
- the need to be increasingly competitive involving the use of outsourcing, offshoring and shared service centres on the one hand and the development of new products and the use of technology to satisfy a new generation of customers on the other hand;
- the use of multiple IT systems that are not necessarily well equipped to cope with complex VAT data; and
- the necessity to be compliant with regulatory developments.

How we can help

- We analyse the VAT treatment of services supplied and received and assist with VAT reporting to monitor and reduce VAT risks;
- We provide assistance in securing VAT treatment and propose solutions to optimise cash flow and mitigate VAT leakage (advising on supporting documents, formalising/reviewing service agreements with third parties, intermediaries, affiliates, etc.);
- We review input VAT recovery methods and identify savings opportunities;
- We help you adapt your IT environment to VAT reporting needs; and
- We assist with dispute resolutions (questions from the VAT authorities and claims).

E-commerce and VAT

Your challenges

Since 1 January 2015, telecommunications, broadcasting and electronic services rendered by EU-established suppliers to EU-resident end final consumers have been taxable in the country of residence of the EU consumer.

This triggers VAT obligations for suppliers in the Member States of their customers, i.e. either direct VAT registration in each country or the mini One Stop Shop (a single registration in the supplier’s country of establishment through which all EU VAT is declared and paid).

Administrative requirements can differ from one country to another, such as the obligation to issue valid invoices to private individuals. The application of local VAT rates, which vary across EU Member States, may also impact suppliers’ margins.

Particular attention should be paid to supplies made from a deemed foreign fixed establishment. Furthermore, specific rules apply if vouchers and/or transaction chains involving intermediaries are used.

Other changes affecting e-commerce operators should be anticipated. There are developments concerning the digital economy initiated by the OECD at international level, while the European Commission recently declared that VAT legislation needs to be modernised to reflect innovative business models and technological progress in today’s digital environment.

How we can help

- We provide analysis and technical information regarding the changes and what they involve, particularly regarding obligations (VAT registration, VAT returns, billing and invoicing requirements);
- We analyse which areas of your business are covered by the recent rules and which are not;
- We help define methods for determining the location of customers, which is crucial for confirming the VAT treatment of your turnover; and
- We provide assistance with ERP implementation and review your IT, accounting and billing systems to assess whether updates or the deployment of new systems are required (including assistance with data collection and storage).
Your challenges

 Luxembourg VAT Law requires taxpayers to produce a structured electronic audit file, called the FAIA, upon request of the tax authorities. Following a pilot phase, the authorities are requesting FAIAs increasingly often. Generating and reviewing a FAIA file can be a difficult exercise, mainly due to the massive amount of information and the thousands of lines it contains.

Discover how PwC can help you generate and review a FAIA thanks to our unique service offering and experienced multidisciplinary FAIA team.

Find more information on pwc.lu/faia

How we can help

PwC Luxembourg has assembled a dedicated team of accounting, IT and VAT experts to help you understand your FAIA obligations and implement the new requirements. Our assistance is always tailored to your specific needs and consists of generating and assessing the FAIA, a service which we may provide separately.

BEPS and VAT

Your challenges

The OECD/G20 BEPS Project is causing a sea change in the world of corporate tax, with both the EU and individual countries now moving energetically to adopt the many recommendations made, and to translate the OECD’s proposals into real changes to tax laws and tax treaties. These changes are also expected to have significant effects (both direct and indirect) on the VAT environment, especially in Luxembourg and Europe.

The OECD’s final report on the digital economy – Action 1 in the BEPS Action Plan – includes important and specific proposals regarding VAT and GST. Other BEPS measures are also likely to trigger important knock-on effects for indirect taxes, as business models are adapted, and certainly not just in the digital world. For example, tighter rules on permanent establishments for direct taxation may well mean extra VAT registration and compliance obligations, changes in the place where supplies are treated as made and modifications in the place where companies are deemed to be established.

Changes to the Transfer pricing policies, the TP method used, the level of the remunerations attributed to supplies between affiliates: these consequences of BEPS will also trigger important VAT adjustments.

How we can help

• We have a strong team of experts in both indirect and direct taxation, who have been following the BEPS Project closely since its inception in 2013.

• We can assist in reviewing the possible VAT impacts arising from the anticipated changes to your business models and/or inter-company transactions (e.g. the impact on the place of supply of goods/services and on who has to account for VAT). As part of this review, we can also assess the risk of potential double taxation for VAT and the potential issues around the pre-financing of VAT; define mitigation strategies; and review the partial VAT recovery method in place to ensure that VAT incurred is appropriately recovered.

• We also assist in updating your systems to comply with the additional VAT accounting and invoicing requirements. PwC boasts strong EU VAT expertise and so can also help handle your multiple VAT registrations and VAT compliance obligations not only in Luxembourg, but also in the EU and beyond.

FAIA and VAT

Your challenges

No matter the industry you work in, our multidisciplinary team can also help with respect to the following areas:

How we can help

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Compliance and process improvement

Your challenges

VAT-registered companies need to manage an increasing flow of data for the purpose of preparing their VAT returns, EC Sales Listings and Intrastat returns.

VAT compliance may be also an additional operational cost for VAT-registered companies due to exponentially increasing reporting requirements. It is clearly becoming a bigger focus for businesses and tax authorities, which are developing sophisticated audit mechanisms.

Not to mention reputational risk: the tax authorities may charge fines or penalties for incorrect or incomplete VAT returns further to any additional amounts of VAT (along with interest) due after a tax assessment.

Moreover, the Luxembourg VAT legislation now also includes a personal liability for managers/directors.

How we can help

In addition to our local and global knowledge, we’ve developed technology-enabled solutions to offer you the best compliance capabilities combining industry specifics, operational efficiency, risk detection and optimisation opportunities.

In other words, we make your VAT life easier!

Preparing/reviewing VAT returns, ESLs and Intrastat

We make sure that:

- managing your VAT situation doesn’t disrupt your core business;
- information flows and processing are efficient;
- you benefit from our most skilled and highly responsive people;
- annual budgets remain as agreed in advance.

We manage proactively your VAT position and related risks through:

- standardised and industry-focused deliverables;
- timely delivery;
- Bulletproof VAT processes against heavy VAT audits, adjustments, fines;
- due diligence readiness.

We have technology-enabled solutions your VAT situation:

- interactive platform, with real time information accessible 24/7
- structured and interactive visualisation of VAT position with different levels of granularity;
- data analytics tailored to your business;
- benchmarking tools.

VAT data analytics

First set of standard data analytics immediately available:

- VAT position trend at group/entity level (VAT balance, deductible/non-deductible input VAT);
- future VAT balances projected at group/entity level;
- report on reverse-charge transactions;
- largest VAT transactions with analysis (input/output).

VAT training programme

PwC’s Academy helps you stay up-to-date with any VAT topics. Our experienced professionals deliver general as well as tailored trainings on all VAT areas. Our VAT training programme covers, among others, the following topics: VAT basics, Important changes in VAT for next year, Luxembourg VAT for foreign VAT experts, etc.

Discover our full VAT training programme and register on www.pwcacademy.lu
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