

eID in action as used by an EU Company[†]

[†] This document is intended purely as a discussion paper exclusively for the internal, non-public use of the recipients. Although every effort has been made to ensure the accuracy and relevance of the contents, they do not in any way represent the official position or policy of the European Commission

TABLE OF CONTENTS

1.	Introduction	3
2.	Case Background.....	3
3.	Move the Employee	3
	3.1. The Company seeks the agreement of country A	4
	3.2. The Company informs Country B.....	5
	3.3. Paying taxes.....	5
	3.4. Outsourcing the processes	6
4.	Manage international VAT.....	6

1. Introduction

In the context of engaging their normal economic activities, businesses in the EU need to interact with the Government in a variety of ways. Typically, they either need to make use of the services provided by the various administrative offices and agencies to achieve some specific goal, or they have some specific obligations to fulfill. Under the conditions that currently prevail, while there are in some cases significant facilities and possibilities for electronic automation available (depending on the sector and the type of business activity in question), and while there are enormous efforts at change underway, most of these interactions between businesses and their governments continue to be paper-based, inconvenient, and require significant investments of time and effort, for both the businesses and the administrations that serve them.

As part of the eGovernment initiative, which seeks to improve the services provided to citizens through the use of modern technology, the introduction of Electronic Identities (eID) and Electronic Identity Management (eIDM) can provide substantial benefits to citizens and businesses, as well as to the administrations that serve them. The benefits are broad-based, and range from savings in cost and time, to simplification and rationalization of the procedures that are followed.

In the following sections are described a number of interactions that take place, in sequence, between a typical business (and its employees) in a common situation, and the various actions that must be taken for the company to achieve its ultimate goal. The interactions typically involve a transaction between two parties (a company officer - or a particular employee - and an administrative agency or officer), and involve the submission of a request and/or a set of some data/information/credentials, in exchange for some specifically sought result (an authorization, a document, etc.).

In each case is described how the activities would play out under currently prevailing conditions, contrasted with how the process would be different and improved with the introduction of eID (and the possibilities that it affords), such as speeding up, streamlining, increased trust, efficiency, cost savings, etc.

The case described below concerns an EU-based company called “Widget Makers, S.A.”, which has decided to transfer one of their employees to a new country to engage in business activities there for the company.

2. Case Background

The Company Widget Makers, S.A., is established in country A (an EU country), and wants to engage in some business activity within another EU country (country B). As part of this activity, Widget Makers, S.A. will transfer one of its employees to work in country B. In addition, Widget Makers, S.A. will have to take a number of other steps, including managing international VAT declarations.

3. Move the Employee

The Company Widget Makers, S.A., has decided to send one of its employees to country B for a long-term but limited-duration mission (3 years). As the duration

of the contract is within the legal limit allowed for special temporary secondment arrangements in force between the two countries A & B (5 years in this case), the employee keeps his original contract with Widget Makers, S.A., in country A.

The manner in which the employee will pay his individual income taxes, as well as his access to social benefits (social security) is also determined by the different bilateral accords in force between country A and country B. In this case of secondment, the employee continues to make social security payments in country A, but as he is living and working in country B, that is where he will pay his income tax.

3.1. The Company seeks the agreement of country A

Widget Makers, S.A., must first make a formal request to the social security administration in country A for its agreement to move the employee in question to country B under the favoured conditions of the secondment.

Widget Makers, S.A., has to find out the right processes and forms to ask the agreement of the administration of country A

Currently		With eID
<p>Widget Makers, S.A., completes the set of forms in order, manually and submits them to the Social Security administration according to the national procedure in force. Typically an authorized officer of Company X will sign as the formal requestor.</p> <p>Widget Makers, S.A., is notified by registered mail when processing of the request has been completed and approved.</p>		<p>Using his own eID, the eID of Widget Makers, S.A., and the eID of the employee to be transferred, as well as an electronic authorization from the proper company officer, a member of the administrative staff of Widget Makers, S.A., is able to complete the set of forms remotely/online (content linked to the identity of the company and the employee can be filled in automatically), and obtain at least an immediate official acknowledgement of reception of the request.</p> <p>Widget Makers, S.A., can be notified by a variety of (electronic as well as traditional) means (such as email) that processing of the request has been completed and approved.</p> <p>Furthermore, the granting of final approval can be used to unlock/grant access to the later steps of the process, which will further speed up the process.</p>

Once these steps have been completed, the employee can take the necessary steps to move to country B. He will continue to be protected by the social security system in country A while living in country B.

3.2. The Company informs Country B

Having obtained the agreement of the Social Security administration of country A, Widget Makers, S.A., must now continue the transfer process with the administration of country B. In particular, Widget Makers, S.A., must provide to the appropriate authorities in country B a number of items, including the following:

- Documents regarding the identity of the employees and their social status
- Documents regarding the identity of the company
- The location where employee will work
- The salary the employee will earn in order to calculate the taxes that will be due in country B.

Currently	With eID
<p>Widget Makers, S.A., has to invest a significant effort in acquiring the necessary information with respect to the procedures to be followed in country B</p> <p>Widget Makers, S.A., has to complete the forms manually in the language of country B.</p> <p>Widget Makers, S.A., has to arrange for officially recognized translations of the relevant key official documents into the language and format of country B.</p> <p>As neither the company, its' officers, nor the employee in question are residents of country B (yet), some identification issues may arise. That means that some kind of notarized copies of the identity documents of the employee and the key relevant manager(s) of Widget Makers, S.A., will have to be prepared and submitted along with the completed forms.</p>	<p>Widget Makers, S.A., still has to fill in the same forms but using the eID of the company and of the employee, the content linked to their respective identities can be filled in automatically, avoiding issues of repeatedly entering the same information more than once.</p> <p>Languages issues can be resolved has electronic forms and documents can be automatically translated into the official language used in country B.</p> <p>The possession of eID will make it possible to automatically generate unique identifiers for Widget Makers, S.A., and its employees. Those identifiers will be recognized by the administration in country B</p>

3.3. Paying taxes

In some countries, it is customary that companies pay the salary after taxes to its employees and the tax on income directly to the country's tax administration ("withholding tax"). In this case, the Widget Makers, S.A., will have to calculate and pay the employee taxes to country B's tax administration.

Currently	With eID

<p>Widget Makers, S.A., has to invest a significant effort in acquiring the necessary information with respect to the taxation rules and process applicable in country B and calculate/estimate the employee's income tax, based on his salary and social status (married, children, etc.).</p> <p>Widget Makers, S.A., must be authenticated by country B as being the one who pay taxes for its employees.</p> <p>Widget Makers, S.A., will put in place specific processes and procedures to arrange for the regular payments of the withholding tax to the tax administration of country B.</p>	<p>Using the eID of the employee, Widget Makers, S.A., will be able to automatically determine the social status of the employee and link it with the relevant taxation formula applicable in country B.</p> <p>Using its eID, Widget Makers, S.A., can register with the tax administration of country B.</p> <p>This will allow Widget Makers, S.A., to automatically process and pay the withholding tax payments to the tax administration of country B for its employee.</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

3.4. Outsourcing the processes

Regarding the complexity of the processes described above, Widget Makers, S.A., could decide to outsource the regular execution of these activities to a third party, i.e., to a service company that specializes in the administration of transferred employees.

Currently	With eID
<p>Issues exist due to the need for the outsourcing company to be recognized as being authorized to carry out the activities (completing and submitting the various forms, making the tax payments and other necessary declarations, etc.) on behalf of Widget Makers, S.A. This situation is complex for country B who has to be aware of this mandate situation but doesn't know either Widget Makers, S.A., or the outsourcing company as they are registered and exist only in another MS.</p>	<p>Using the eID of both companies, Widget Makers, S.A., can issue and electronic authorization to the outsourcing company to carry out the specific actions required, in a way immediately clear and acceptable to country B.</p>

4. Manage international VAT

As soon as Widget Makers, S.A., begins to engage in business activities outside the EU Member State in which it is based, it is an international trader, and as such has additional obligations with respect to VAT. Whether Widget Makers, S.A., has obligations in country B depends on how its activities are conducted.

International Traders have to make, in addition to their normal national VAT declarations in the country in which they are established, quarterly declarations regarding their international trade activities with other member states of the EU.

The Tax administration of country A will require specific forms be used for the quarterly declarations. They may also have facilities available for their international traders to make electronic declarations.

For transactions in which buyer and seller are registered in different EU Member States, the VAT rate is 0%. The VAT is normally paid in the country where the goods or services are purchased.

If Widget Makers, S.A. has incurred expenses in country B to establish or conduct business there, it can reclaim VAT that it has paid there. If the company has a formal presence in country B (in the form of a branch office or a subsidiary) one type of procedure will apply, as it may be simpler for the local office in country B to file the claim. If however there is no local presence in country B, the VAT can be reclaimed in country A, but typically this procedure is complex as well as costly.

Currently	With eID
<p>To reclaim the VAT in country A, Widget Makers, S.A. can follow the standard procedure applicable in country A.</p> <p>To reclaim the VAT in country B, Widget Makers, S.A. would first have to establish the subsidiary or branch office; once it exists, regular claims to recover VAT can be filed.</p>	<p>Using it's eID, Widget Makers, S.A., can establish its' subsidiary or branch office more easily and quickly in country B.</p> <p>In either scenario, the use of eID's can facilitate the filing of VAT recovery claims.</p> <p>eID is a key enabler in the implementation of the "VAT one-stop-shop", which will dramatically simplify and reduce the costs of VAT compliance for all EU international traders, large and small</p>