Using VAT as a fiscal consolidation tool in Portugal
José A. de Azevedo Pereira
Decomposition of tax revenue (2006 – 2012)
VAT Revenue

Source: Eurostat
Economic Activity and Private Consumption

Year-on-year rate of change - in percentages

J. Azevedo Pereira

Economic Activity
Private Consumption
Growth of VAT revenues
1. Following the 2008/9 crisis, VAT revenue has suffered a sharp fall clearly in excess of the reduction registered, both, in terms of overall economic activity and aggregate consumption.

2. Notwithstanding the slowdown of economic activity, with private consumption showing a sharp drop from May 2010 onwards, VAT revenues remain relatively stable and even grow modestly during the period 2010-2011 and are expected to register a zero growth in 2013, in spite of the continued negative macroeconomic evolution.

3. Main causes:
   - Changes in the VAT system;
   - Changes in the compliance and control framework.
### Changes in the VAT legal framework:

**Increase in VAT rates:**

<table>
<thead>
<tr>
<th></th>
<th>Mainland</th>
<th>Azores</th>
<th>Madeira</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reduced rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>2011</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Reduced/ Parking rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>13%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>2011</td>
<td>13%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Standard rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>21%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>2011</td>
<td>23%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>2012</td>
<td>22%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Using VAT as a fiscal consolidation tool in Portugal – 2011-2013

A. Changes in the VAT legal framework:

Shifting goods and services from the reduced rates to the standard VAT rate:

<table>
<thead>
<tr>
<th></th>
<th>6%</th>
<th>13%</th>
<th>23%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural events</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admission to sporting events and public amusements</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

J. Azevedo Pereira
### 3. Using VAT as a fiscal consolidation tool in Portugal – 2011-2013

<table>
<thead>
<tr>
<th>Category</th>
<th>6%</th>
<th>13%</th>
<th>23%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity and Natural gas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foodstuffs (some items)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurant and catering services including supply of beverages</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
B. Changes in the VAT management system:

- Tax administration:
  - Reducing the risks of intra-community fraud:
    - registration checks
    - ensuring fast deregistration of fraudsters, suspicious or non-compliant taxable persons
B. Changes in the VAT management system:

- Tax administration:
  - Increasing voluntary compliance using certified invoicing software, pre-notification of invoicing contents and subsequent cross-check combined with VAT rebates, digitalised pre-notification of movement of goods
I. SAF-T MODEL

TAXPAYERS INFORMATION SYSTEM DATABASES

SAF-T

XML SCHEMA

<TotalCredits>461.14</TotalCredits>
<Invoice>
<InvoiceNumber>1277</InvoiceNumber>
<InvoiceDate>2010-06-28</InvoiceDate>
<InvoiceType>00</InvoiceType>
<SystemEntryData>2010-06-28</SystemEntryData>
</Invoice>
<Line>
<LineNumber>1</LineNumber>
<ProductCode>94</ProductCode>
<ProductDescription>Desconhecido</ProductDescription>
<Quantity>14</Quantity>
<DiscountMeasure>21.39</DiscountMeasure>
</Line>
</Invoice>
</Invoice>
</Invoice>

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SAF-T is an **OECD’s recommendation** aiming the following objectives:

- a reduction of compliance costs for businesses;
- a reduction of administrative costs for revenue bodies;
- the enhancement of the outcomes of audits of businesses carried out by revenue bodies; and
- the provision of a platform to make it easier for revenue bodies to co-operate in areas such as joint audits.
I. GENERAL BENEFITS

✓ Access to data in an easily readable format

✓ Suitable for use by businesses and their auditors across the scale from Multi-National Enterprises (MNEs) to Small to Medium Enterprises (SMEs).

✓ Suitable for use by both internal and external auditors in their compliance programmes.
The development of SAF-T as an international standard may lead to a reduction in compliance costs that would otherwise be incurred by MNEs in order to meet differing compliance requirements for multiple jurisdictions.
“In order to issue invoices, credit notes, debit notes and receipts/tickets, Taxpayers are required to use, exclusively, computer invoicing programs which have been subjected to a previous certification by the Taxation and Customs Authority (AT). “
III. New billing system e-invoice
Promoting compliance and fight against tax evasion and avoidance...
III. Goals

★ Combat the grey economy
  – Increased tax revenues without increasing tax rates
  – Reduction of unfair competition between non-compliant taxpayers vs. compliant taxpayers

★ Reduction of social costs through an increase in voluntary compliance
  – Improving AT’s ability to provide timely answers to evasion challenges

★ Citizen involvement in combating the grey economy
III. Main components

1 – Mandatory obligation to issue an invoice, even when end users do not require it;

2 – Electronic communication to AT, of the essential data for all invoices issued in previous month;

3 – Creation of a Website where all data acquired by the TA, through this process, is made available to the corresponding providers (businesses and goods purchasers);

4 – Purchasers have the possibility to insert in the site the invoices of their purchases, if the corresponding data is not already available;
III. Main components

5 – Tax benefit to consumers, corresponding to 15% of the VAT mentioned in the invoices with his/her TIN (only four sectors of economic activity);

6 – Businesses have the mandatory obligation to electronically and beforehand communicate data of the goods they transport;
III. Ways to access and transfer billing data

Collection of the information on all issued invoices, at national level
III. Tax Benefit

Granting a tax benefit to consumers in the proportion of the VAT input (15%)
III. Compliance Support System

anomalies between the communicated information

The Invoicing information is analysed and processed, when an anomaly is detected an alert is generated
III. Compliance Support System

anomalies between the different systems

A wider data analysis, crossing information with VAT System and, in the future, with other AT systems
Consumers may report non-compliance situations, which are analysed and may generate non-compliance situations.
System Benefits

* All data gathered, after treatment, will be used to support the improvement of tax compliance.

* AT shall focus on using data acquired to enhance relationships with businesses aiming at improving voluntary compliance, preventing possibilities of evasion and minimizing the need to enforce collection.

* Bureaucracy shall decrease substantially in the near future.
  * All information communicated by companies with this new system was already transmitted previously, only deferred in time and dispersed and converted into different declarative forms.
  * Now, in many cases data reaches AT in real time and the latest up to the 25th of the following month.
Reduction of the financial costs for companies

The system was conceived and designed in a way that should lead companies to face no significant additional costs.

The system was implemented using the existing accounting systems:

- In 2008 came into force the requirement for companies with computerized accounting, to create the SAF-T (PT) audit file according to the OECD Model.

The system provides the basis for greater future corporate cost savings, particularly because:

- Companies can gradually come to be exempted from a set of bureaucratic burdens that they currently support.
- The reporting obligations can be simplified.
Results

More than 3 billion invoices have been communicated

Number of invoices communicated to AT

All sectors

<table>
<thead>
<tr>
<th>Month</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>296,457,926</td>
</tr>
<tr>
<td>Fev</td>
<td>305,373,411</td>
</tr>
<tr>
<td>Mar</td>
<td>347,875,066</td>
</tr>
<tr>
<td>Abr</td>
<td>341,523,463</td>
</tr>
<tr>
<td>Mai</td>
<td>373,807,375</td>
</tr>
<tr>
<td>Jun</td>
<td>363,939,477</td>
</tr>
<tr>
<td>Jul</td>
<td>400,399,312</td>
</tr>
<tr>
<td>Ago</td>
<td>390,987,031</td>
</tr>
<tr>
<td>Set</td>
<td>323,874,163</td>
</tr>
</tbody>
</table>
A citizenship project

Number of consumers who have requested invoices with their TIN number

<table>
<thead>
<tr>
<th>Sectors with tax benefit</th>
<th>End consumers with tax benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO1 - Repair of motor vehicles</td>
<td>583,513</td>
</tr>
<tr>
<td>CO2 - Repair of motorcycles</td>
<td>23,940</td>
</tr>
<tr>
<td>CO3 - Restaurants and accommodation</td>
<td>1,582,806</td>
</tr>
<tr>
<td>CO4 - Hairdressing and other beauty treatment</td>
<td>285,162</td>
</tr>
<tr>
<td><strong>Total amount</strong></td>
<td><strong>2,475,421</strong></td>
</tr>
</tbody>
</table>
E-invoice data treatment/Periodic VAT Declarations
(May and 2nd. Quarter of 2013)

Key:
F01 – Has issued invoices for the referred period, but the VAT periodic return has not been submitted
F02 – The VAT output in invoices is higher than the declared for the period
F04 – Has not submitted the issued invoices for the period
F05 – Has not communicated invoices for the period

Entry into production very shortly
F03 – Deductible VAT input higher than VAT output for the period
Results

VAT paid by sectors with benefits has increased significantly, while the remainder ones is falling

Variation of Tax Revenue from VAT - monthly regimen (2013 vs 2012)

- Sectors with tax benefit
- Sectors without tax benefit

January: 0.77%
February: -3.22%
March: 5.52%
April: 4.28%
May: 2.20%
June: 10.21%
July: 11.17%
August: 5.70%

- efatura
Results

Refunds Allowed VAT

Jun | Jul | Aug | Sep | Oct | Nov | Dec
531,683.86 | 486,772.33 | 442,985.38 | 628,251.94 | 539,278.48 | 365,979.88 | 418,348.26
520,301.86 | 369,483.77 | 349,988.16 | 341,871.69 | 288,232.48

Data of 4 November 2013
## Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOFTWARE Total</td>
<td><strong>615,266.80</strong></td>
</tr>
<tr>
<td>Hardware:</td>
<td></td>
</tr>
<tr>
<td>Exalogic</td>
<td><strong>994,500.00</strong></td>
</tr>
<tr>
<td>EXADATA</td>
<td><strong>738,286.06</strong></td>
</tr>
<tr>
<td>Scale Out (Sonas)</td>
<td><strong>98,765.00</strong></td>
</tr>
<tr>
<td>Telephone Channel Solution</td>
<td><strong>36,000.00</strong></td>
</tr>
<tr>
<td>DATAPOWER</td>
<td><strong>40,000.00</strong></td>
</tr>
<tr>
<td>HARDWARE Total</td>
<td><strong>1,907,551.06</strong></td>
</tr>
<tr>
<td>TOTAL</td>
<td><strong>2,522,817.86</strong></td>
</tr>
</tbody>
</table>
Thank you