




meridian

International VAT*trends* SURVEY

MAY 2009

Trusted partners of the World's
largest companies



MESSAGE FROM MERIDIAN'S CEO

It gives me great pleasure to introduce the results of our Global VAT Compliance survey, which presents the views of in-house VAT and finance professionals from over 200 multinational companies.

The first decade of the 21st millennia has been marked by accelerated globalisation of business, reduction of international trade barriers, and intensified use of and reliance on electronic systems and technology. As businesses evolve to adapt to this new landscape, governments and tax administrations have likewise responded to ensure that in this digital environment, they have sufficient comfort that the correct tax is being collected at the correct time.

We are currently witnessing a widespread change to the approach taken by tax authorities across many jurisdictions, which has a profound impact on policy, ultimately redefining the relationship with taxpayers. A common theme is the shift in onus onto the taxpayer, who must demonstrate evidence of effective management of VAT compliance risk as a basis for mitigating punitive penalties, reducing substantive reviews and achieving early audit sign-off.

With the imminent arrival of the 'VAT package' (in January 2010) across 27 European countries, in-house tax and finance professionals have the added burden of implementing a myriad of legislative VAT changes to their existing systems and process. With 62% of respondent's admitting that the level of visibility and control over their VAT compliance is at best 'fair', at worst 'poor', coupled with far deeper levels of scrutiny required by the tax administrations, the challenge is clearly set and the stakes are indeed high.

This survey presents the views of a diverse range of in-house VAT and finance professionals - all of whom share the burden of responsibility in managing their organisations' VAT compliance affairs. Their perspective provides interesting insight into what they perceive as the key challenges and risks, and what solutions they believe are strategically important to address these.

I also wish to thank all of our respondents who, by providing us with their feedback, contributed €5 per response which Meridian are happy to have donated to the International Red Cross, on their behalves.

Yours sincerely,

MARK O'RIORDAN
Chief Executive Officer
MAY 2009

EXECUTIVE SUMMARY

As a global leader in international VAT, Meridian services a client base in excess of 15,000 multinational businesses, spread across a diverse range of industries. By blending our experience at being at the forefront of International VAT developments, together with the vast experience of our clients, we are able to present the results of our Global VAT Compliance survey, which describes some of the key VAT issues facing business as we approach 2010.

Survey Statistics

- The International VATtrends survey was issued in March 2009. A total of 228 responses were received, representing the views of international VAT and finance professionals from across the world.
- Respondents were invited to participate in the survey, which was conducted on-line.

Respondent Profile & VAT Structure

- The overwhelming majority of respondents represent the views of large, multinational businesses. 63% have turnovers in excess of €100m. 46% in excess of € ½ billion.
- Nearly half of respondents come from a senior level within the organisation, with a title of either Director or Manager.
- When asked about the geographical remit of the individual respondents, 73% confirmed that their remit was either EMEA or Global.
- Within this geographical remit, 57% were responsible for the VAT affairs of more than 5 legal entities. It was interesting to note that 17% had responsibility for over 50 legal entities.
- In relation to the size of VAT teams within these organisations, 49% constituted 2-5 dedicated heads. 18% of respondents work with teams greater than 6 dedicated VAT heads.

Key challenges for in-house VAT and finance professionals

Respondents were asked to indicate which were the biggest challenges facing in-house VAT and finance professionals over the next 12 months.

The top 4 were highlighted as follows:

1. keeping up with legislative and policy changes
2. increased workload
3. control of VAT compliance activities
4. IT systems and control procedures

It is clear, based on the responses and commentaries under this section, that the overwhelming majority of respondents are concerned over their ability to control VAT compliance with the constant legislative and policy changes within the international VAT arena.

Preparations for 2010 – the ‘VAT Package’

We asked respondents to indicate their level or ‘readiness’ for certain changes that are due to come into effect across the European VAT system:

- Place of Supply of Services: 32% of respondents were either unaware, or aware-but-not-prepared. 28% were aware and still investigating. Only 4% consider themselves completely prepared.
- Stricter Penalty Regimes: 45% of respondents were either unaware or aware-but-not-prepared. 27% were aware and still investigating. Only 4% felt they were completely prepared.
- New Refund Directive: 40% of respondents were either unaware or aware-but-not-prepared. 29% were aware and still investigating. Only 3% felt they were completely prepared.

Visibility and Control over VAT Compliance

We asked respondents to indicate the level of visibility and control they have from their IT systems and procedures and overall VAT compliance across their geographical areas of responsibility. 62% indicated that their control and visibility was poor or fair.

The overwhelming majority of respondents agreed (or agreed strongly) with the following VAT compliance statements:

- Tax administrations across Europe are treating businesses more strictly for inappropriate levels of VAT compliance.
- Companies who demonstrate effective VAT risk management will receive a ‘lighter touch’.
- The importance of regularly reviewing VAT configuration within their ERP systems.

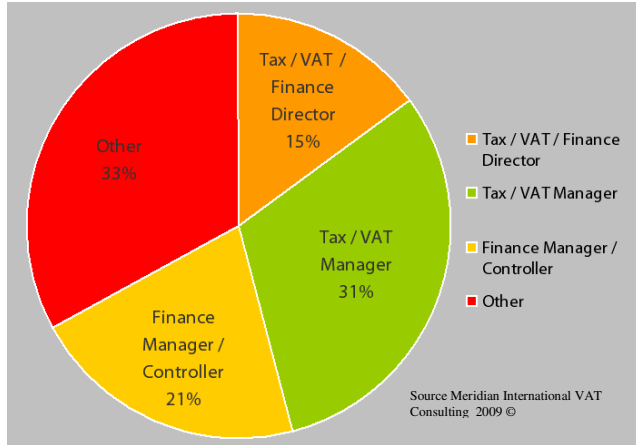
Strategies to improve VAT compliance

The overwhelming majority of respondents regard all of the following as either critical or important strategies to achieving better VAT compliance:

- Conduct electronic reviews or ERP data to check for errors and inconsistencies.
- Ability to access up to date local VAT rules and regulations across multiple jurisdictions.
- Direct access to electronic archive of all VAT return workings, forms and correspondence.

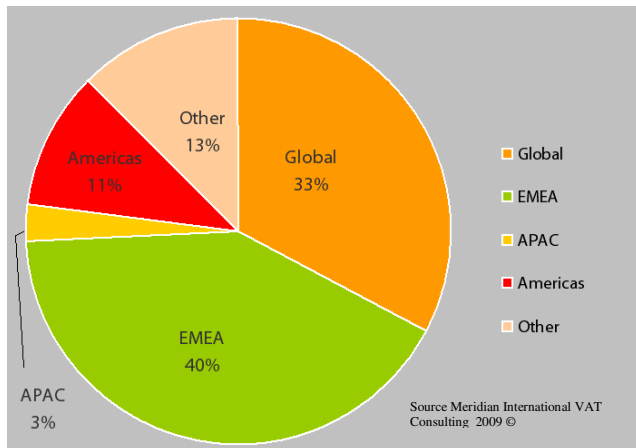
RESPONDENT PROFILE

Figure 1: Which of the following best describes your position?



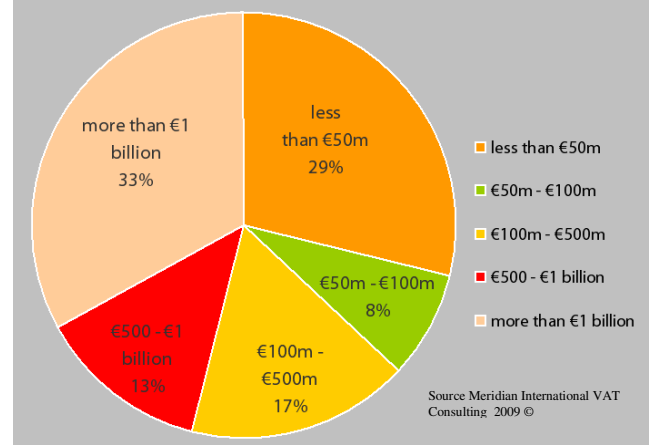
The objective of this question was first to identify the level of seniority of the respondent, and whether the scope of his/her remit was dedicated TAX/VAT or general finance. It is evident from the responses that the majority were of a high level of seniority – 46% (31% + 15%) being at Manager or Director level. A deeper analysis of the ‘Other’ category reveals titles such as “Managing Director”, “VAT accountant”, “VAT consultant”, “Lawyer”, etc.

Figure 2: What is your geographic area of responsibility?



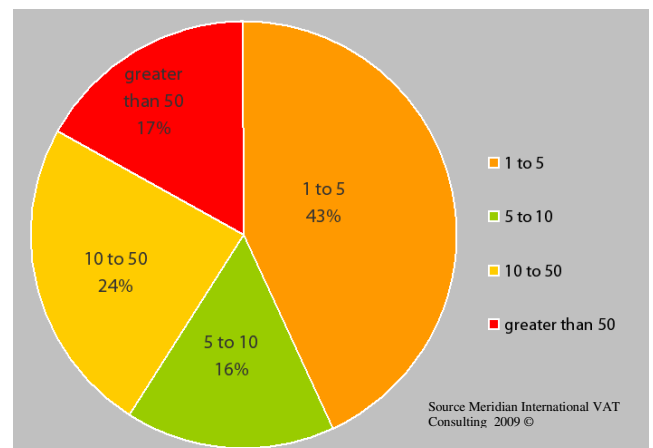
It is common in large business that VAT and finance professionals are assigned functional responsibility for VAT compliance matters across many countries. As evidence from the result in the above graph, 33% of respondents have global remit while 40% have an EMEA remit. This would suggest that these individuals carry a burden or responsibility for understanding and managing complex VAT compliance activities across multiple jurisdictions.

Figure 3: What is the annual turnover of your company?



The level of turnover is one of the simplest ways of assessing the relative size of a company. Considering that the majority of Meridian’s client-base comprises large multinationals, there was almost no issue with confidentiality as this would be in the public domain. It is clear from the responses that this survey represents the views of medium to large business.

Figure 4: How many legal entities are under your responsibility?



More than half of the respondents have responsibility for 5 or more legal entities. It is interesting to note that nearly a fifth have responsibility for more than 50 entities.

RESPONDENT VAT STRUCTURE

Figure 5: Which of the following best describes the structure of the VAT function in your company?

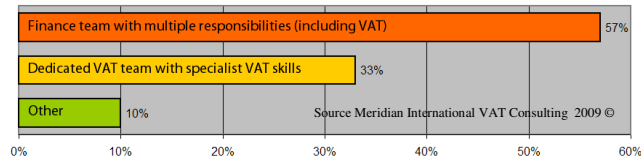
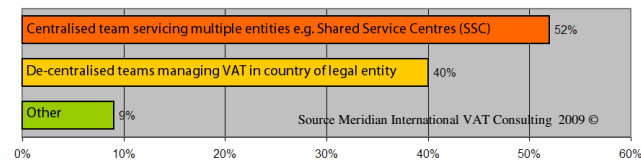
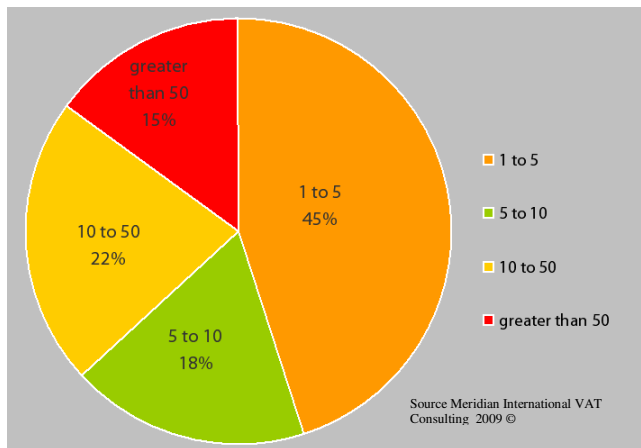


Figure 6: Which of the following would best describe the organisation of the VAT function in your company?



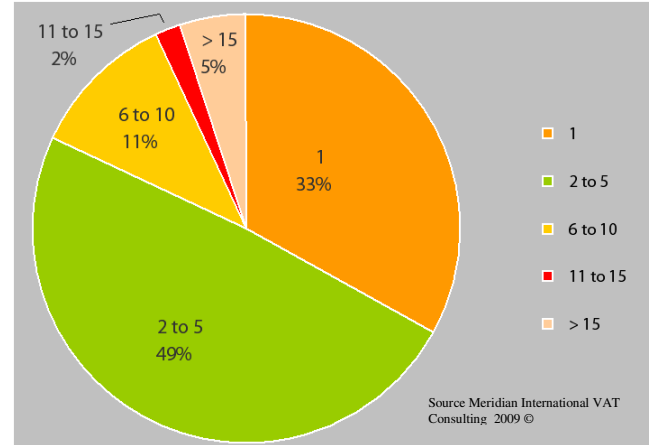
The majority of respondents sit within the overall finance team, sharing both general finance and specific VAT related tasks. Considering the profile of these companies (as discussed in the previous section) it would seem that the complexity associated with multi-jurisdictional VAT compliance might demand a disproportionate amount of time and resource within the finance team. As priorities shift considering the time of the year (month-end closing, audit, annual reporting cycles, etc), this organisational structure might present additional challenges.

Figure 7: How many VAT registrations (domestic & cross-border) do you manage?



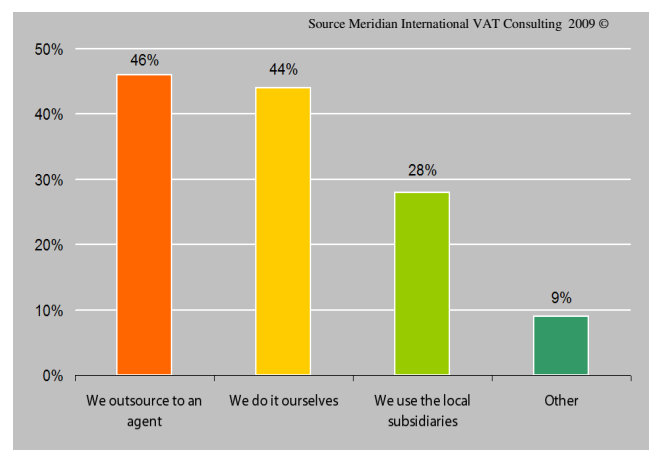
A clear indicator of the volume and complexity of compliance activity across an organisation is the number of active VAT registrations in force. In 55% of cases, the number exceeds 5. In 37% of cases, it exceeds 10. When asked how many of these are cross-border (foreign) VAT registrations, 43% had more than 5. The complexity of managing cross-border registrations increases significantly and requires specialist knowledge of differing VAT rules, formalities and language.

Figure 8: How many people do you have in your VAT team?



It is evident from the responses that dedicated VAT personnel (or finance staff tasked with specific VAT responsibilities) require a number of full-time personnel in order to support the VAT compliance obligations of the business. In almost 50% of cases, this team is between 2 and 5 people. In 18% of cases, it is above these levels. When cross-referencing this profile with VAT Challenges (fig. 10), very little variance appears in the problems associated with visibility and access to up to date information., given the size of the company involved.

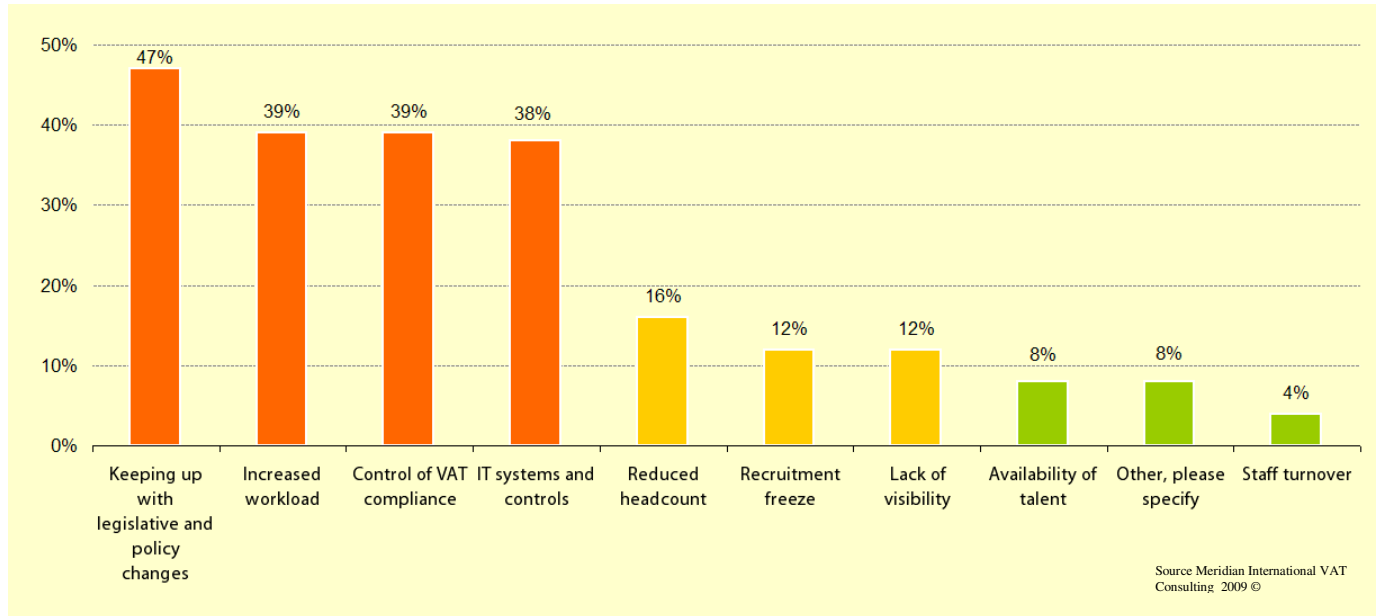
Figure 9: How do you manage the submission of your cross border registrations?



Considering the fact that 43% of respondents with cross-border VAT registrations had 5 or more in force, it is interesting to note that nearly half of these rely on the support of third party agents to assist with some or all of their foreign VAT compliance obligations. This outcome was consistent across the size of the companies surveyed. There is also a high propensity to mix the methods used to manage foreign registrations, especially in larger organisations.

KEY CHALLENGES

Figure 10: What do you believe will be the biggest challenges for the VAT team in your organisation over the next 12 months?



In order to narrow the comments within a reasonable range, and to keep the results as meaningful as possible, the above categories were compiled in a list, based on identifying key VAT issues common across a wide range of countries and industries. Respondents could select more than one issue, which facilitated overall aggregate ranking, producing the above result.

The top 4 categories identified were:

- Keeping up with legislative and policy changes 47%
- Increased workload 39%
- Control of VAT compliance 39%
- IT systems and controls 38%

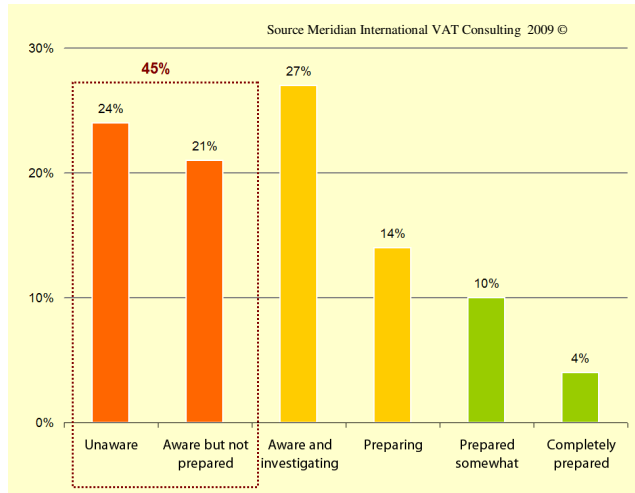
Considering the views on what challenges respondents feel will impact them most over the next 12 months, it no real surprise to see that availability of talent and staff turnover are not considered a problem by many, especially in the current economic environment.

The key challenges that respondents believe they will face in the coming 12 months were consistent across organisation sizes and geographies of responsibility, with the focus being on the more tactical areas. What is surprising is that, while 62% of respondents considered their visibility and control over all VAT compliance across their business to be poor or fair (see fig. 14), only 12% saw this as one of the challenges that needed to be addressed in the next 12 months.

PREPARATION FOR 2010 – THE ‘VAT PACKAGE’

How prepared is your organisation for the following changes and proposals in EU VAT legislation / policy?

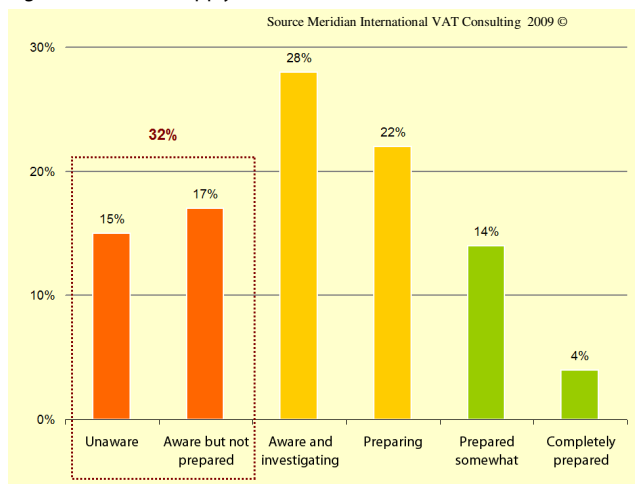
Figure 11: Stricter penalty regimes



24% of respondents are not aware of the changes to penalty regimes in certain key jurisdictions (for example, the UK), nor the general swing to a more punitive regime across Europe. 21% were aware, but were not prepared in any form. A further 27% were aware, and investigating the likely impact for their organisation.

Given the important ramifications for businesses and how it will define their relationship with their local tax administration, it is unusual that such a high proportion of respondents (representing large business) are not preparing.

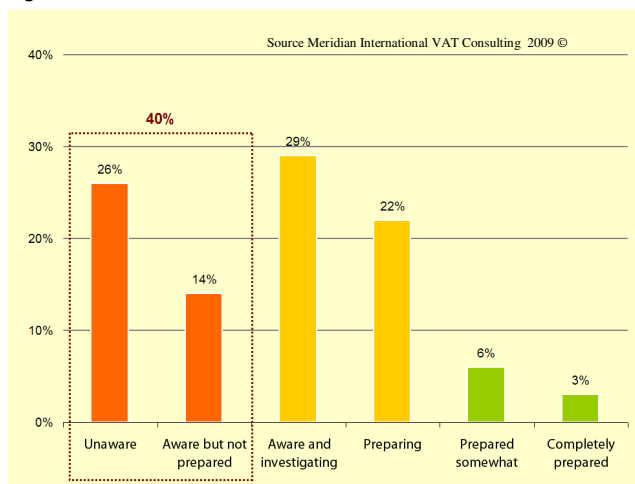
Figure 12: Place of supply of services Directive



The place of supply Directive is one of the most important pieces of European VAT legislation to affect the Community for a long time. Its full impact requires fundamental and numerous technical and procedural changes to the VAT rules which will require significant planning by business before its introduction in January 2010.

32% of respondents are unaware or unprepared for the changes. A further 28% are aware and investigating. Only 18% feel that they are either partially or completely prepared. With a little more than 6 months to go before January 1st, businesses would need to ramp up and refocus their efforts to ensure that they are fully prepared.

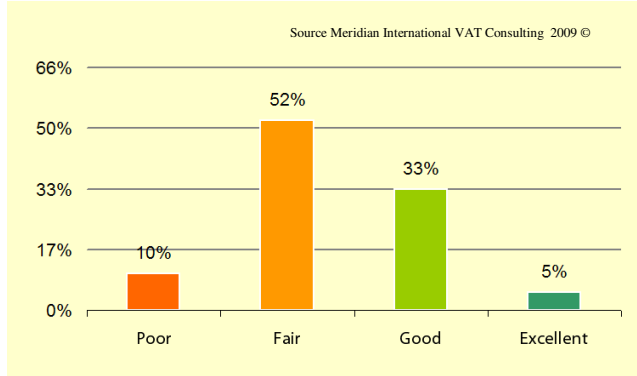
Figure 13: New Refund Directive



The Refund Directive changes the way that EU businesses apply for refunds of VAT incurred in a Member State other than the Member State in which they are established. While information from national tax administrations on how they intend to implement this is relatively sparse, 40% of respondents admit that they are either unaware, or unprepared for these changes.

VISIBILITY AND CONTROL OVER VAT COMPLIANCE

Figure 14: Indicate the level of visibility and control that you feel you have from your systems and procedures, over all VAT compliance across your business.



Respondents were asked, on an overall basis, how they perceive their level of control over VAT compliance across their organisation. Aside from the actual level of compliance (whatever that might be) the perception, as judged by those with responsibility for this function, is a valuable 'litmus' test.

It is very interesting to note that 62% of respondents feel that their control over VAT compliance is not good – rather they ranked it as poor or fair. While at the same time only 12% saw this as one of the key challenges to overcome in the next 12 months. Considering the diversified nature of the management of VAT compliance in more global organisations today, this is one item that needs to be a higher priority.

Figure 15: To what extent do you agree/disagree with the following statements relating to VAT compliance?

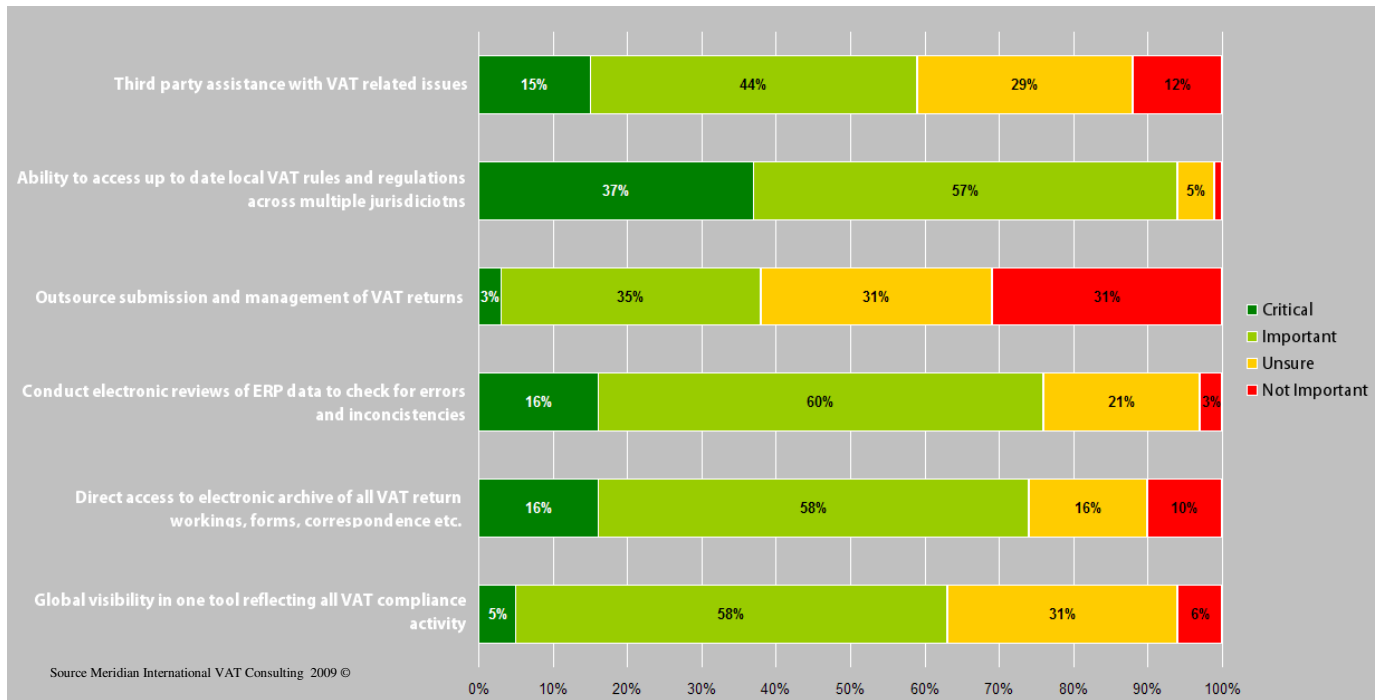


In this next section, respondents were asked to express their opinion on various statements dealing with VAT compliance. The objective of these statements is to assess what in-house VAT and tax professionals perceive as some of the most important influencers of VAT compliance across their business. All statements received strong support from the majority of respondents, with particular emphasis on the need for businesses to regularly review VAT configuration within their ERP systems to help manage VAT compliance.

Respondents also saw IT systems and controls as one of their top 4 challenges in the coming 12 months (see figure 10) which would indicate that this is likely to be a draw on the time and resources of VAT teams going forward, requiring more engagement with internal audit and IT teams to mitigate any systemic error being built into systems within the organisation.

STRATEGIES TO IMPROVE VAT COMPLIANCE

Figure 16: Consider the following statements and indicate the level of importance you place on each capability, to help improve or maintain the level of global VAT compliance in your company going forward.



In this final section of the survey, respondents were asked their opinion on a number of strategies and solutions that could be used to help improve the levels of VAT compliance across their organisation. It appears from the responses that there is strong support for the following strategies:

- Ability to access up to date local VAT rules and regulation across multiple jurisdictions – 94% stating this was critical / important
- Conducting electronic reviews of ERP data to check for errors and consistencies – 76% stating this was critical / important
- Direct access to electronic archive of all VAT return workings, forms, correspondence, etc – 74% stating this was critical / important

Another interesting conclusion to be drawn from this section, is that a significant number of respondents are uncertain or undecided as how to approach certain items (for example, to outsource the submission and management of VAT returns). Further research may be necessary to draw additional information from respondents who are yet undecided and to discern more definitive feedback in this regard.

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ABOUT MERIDIAN INTERNATIONAL VAT CONSULTING (MIVC)

Meridian helps clients understand, develop, implement and quantify the effectiveness of their International VAT policies. Our goal is to help Tax and Finance teams create measureable business results through effective application of procedures and ensure compliance.

With more than 500 employees serving international blue chip clients from more than 120 countries and territories worldwide, we have the local knowledge and the worldwide presence to develop and implement solutions on a global basis.

That is why we are the trusted partner of the world's largest companies.

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