



THE INDIRECT TAX IMPERATIVE

*Managing VAT and GST Risk, Control, and Compliance
in the Age of Real-Time Reporting*

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Foreword: About This Book and Its Source

THIS BOOK IS BUILT on a body of practical, field-tested writing about the management of value-added tax and goods-and-services tax: the Best Practices series published at globalindirecttaxmanagement.com by Richard Cornelisse, the founder and chief executive of KGT. It reflects a distinctive vantage point — deep technical tax knowledge married to a working understanding of how large companies actually run their systems — and it treats indirect tax not as an abstract body of law but as something that must be designed, configured, tested and operated inside real systems, against real deadlines and under real audit. A full profile of the author appears in “About the Author” at the end of the book.

What this book adds is structure. The original material was written as a series of self-contained articles, each answering a particular question. Here that material has been consolidated, rewritten and reorganized into a single continuous argument, so that it can be read from front to back as one expert account of how a modern organization should manage indirect tax. The aim is not to restate the law of any single country but to give heads of tax, chief financial officers, controllers, finance-transformation leads and their advisers a coherent way of thinking about the whole discipline.

A necessary word of caution. Everything here is general information, not advice. It cannot take account of any particular organization’s facts, and the rates, thresholds, deadlines and statutory references it mentions change frequently and differ by jurisdiction. Treat the book as a map of the territory, and confirm the specifics with a qualified adviser before acting on them.

Preface: The Tax That Touches Everything

VALUE-ADDED TAX IS THE most widely adopted tax in the world. More than 170 countries now operate a VAT or a goods-and-services tax, and for most of them it ranks among the largest single sources of public revenue. Yet for all its reach, VAT has spent most of its corporate life in the shadows — administered as a clerical, periodic, paper-driven routine somewhere downstream of the decisions that actually shape a business. That arrangement is no longer tenable, and the central argument of this book is that the organizations which understand why will be the ones that stay compliant, protect their cash, and avoid the assessments and penalties that increasingly follow a single systematic error.

Two features make indirect tax fundamentally different from the corporate income tax that has traditionally commanded boardroom attention. The first is that VAT is charged on gross transaction flows rather than on profit. A business can be loss-making and still owe, collect and remit enormous sums of VAT; the tax follows revenue, not margin, which means it touches pricing, working capital and cash flow directly. The second is that VAT is embedded in almost every transaction a company processes — every sale, every purchase, every intercompany movement, every cross-border shipment. Because the tax is woven into operations at this granular level, an error is rarely isolated. A misconfigured rule or a wrong field in the master data repeats automatically across thousands or millions of documents before anyone notices, so indirect tax risk tends to be systematic rather than incidental. One mistake becomes ten thousand mistakes.

What has changed — and what gives this book its urgency — is that tax authorities can now see those mistakes as they happen. The last decade has brought a quiet revolution in tax administration: mandatory electronic invoicing, the Standard Audit File for Tax, continuous transaction controls, and real-time digital reporting. Authorities increasingly hold the transaction-level data of a business as it is created, and they reconcile it automatically across the periodic VAT return, the detailed SAF-T file and the real-time invoice feed.

The audit has shifted from a periodic, retrospective exercise of declaring a number and explaining it later, to something much closer to continuous monitoring. In the European Union, the “VAT in the Digital Age” reform, adopted in 2025, will make structured e-invoicing and digital reporting mandatory for intra-EU business-to-business trade from 1 July 2030 — but the direction of travel is already unmistakable, and dozens of countries have moved ahead of any single deadline.

The consequence is that indirect tax has crossed a threshold from the back office to the boardroom. It can no longer be treated as something to get right after the commercial, supply-chain and system decisions have been made, because by then the errors are already designed in. The throughline of this book is therefore simple to state and demanding to execute: the businesses that thrive in the real-time era are those that design tax into the organization — into its strategy, its data, its systems and its controls — before an error has the chance to repeat.

The chapters that follow trace that argument from one end to the other. We begin with why indirect tax became strategic, then examine the anatomy of VAT risk and the money at stake. We turn to the design of the tax function and its operating model, and to the governance and control framework that makes compliance demonstrable rather than assumed. We spend two chapters in the engine room — first on how an ERP such as SAP actually decides the tax on a transaction, then on what happens when that system meets the messy realities of cross-border trade. We move up to the reporting layer, where the real-time reconciliation now lives, and then stress-test the whole picture against the moments most likely to break it: mergers, restructurings and cross-border expansion. We close on the adversarial frontier, where fraud, data analytics and an increasingly automated enforcement effort are reshaping the field for authorities and taxpayers alike. The same conviction runs through every chapter: get the design, the data and the controls right, and most of what follows takes care of itself.

PART ONE

The Transformation and the Risk



Why indirect tax became a board-level concern — and what, concretely, is at stake when it goes wrong.

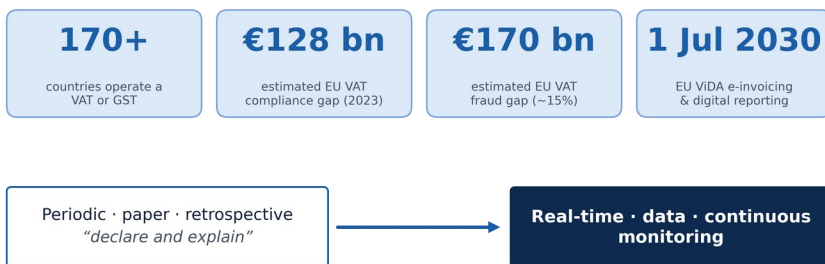
CHAPTER 1

From Back Office to Boardroom

Indirect tax used to be measured by whether the return was filed on time. It is now measured by whether the data behind the return can survive being read by a machine.

TO UNDERSTAND WHY INDIRECT tax now demands strategic attention, begin with its scale and with the gap between what should be collected and what actually is. Across the European Union alone, the VAT compliance gap — the difference between the VAT that should be collected and the amount actually received — was estimated at around €128 billion in 2023. That figure is not principally a story about criminal fraud, though fraud is part of it; much of it is ordinary error, misclassification, weak controls and missed obligations, multiplied across millions of taxpayers. For governments, closing that gap is among the highest-return activities available, which is precisely why the machinery of enforcement has been rebuilt around real-time data. For businesses, the same figure is a warning: the errors that create the gap are, overwhelmingly, the everyday administrative mistakes that any organization can make at scale.

The scale — and the shift



From periodic, paper-based compliance to real-time, data-driven oversight.

Tax risk management, properly understood, is the structured and continuous process of identifying, assessing, mitigating, monitoring and responding to the risks that arise from an organization's tax

obligations. Its goal is not to pay as little tax as possible but to keep the organization's tax positions predictable, defensible and aligned with its stated appetite for risk. It runs as a continuous loop rather than an annual event, and it is anchored by a tax control framework built, in the language of the OECD, on a recognized set of building blocks: a documented strategy, comprehensive coverage of tax risks, clear assignment of responsibility, governance that reaches the board, testing of the controls, and assurance that the whole system actually works. The board is ultimately accountable — itself a signal of how far the discipline has traveled from the filing cabinet.

Four forces reshaping the landscape

Four forces dominate the tax-risk landscape as this book is written. The first is the arrival of a global minimum tax: the OECD's Pillar Two framework, which sets a 15 percent floor on the effective tax rate of large multinational groups, has turned tax-data quality into a board-level concern. The second is transfer pricing, still the single largest source of tax risk for most multinationals, whose interaction with indirect tax and customs valuation is routinely underestimated. The third is the rise of public tax transparency, as country-by-country reporting and similar disclosures move tax conduct into the arena of reputation. The fourth, and the one that touches indirect tax most directly, is the adoption of artificial intelligence — by authorities to detect anomalies, and by tax functions to keep pace.

Four forces pushing indirect tax onto the board's agenda

Pillar Two A 15% global minimum tax makes tax-data quality a board-level concern.	Transfer pricing Still the single largest source of tax risk for most multinationals.
Tax transparency Public, country-by-country disclosure turns tax conduct into reputation.	Artificial intelligence Authorities detect anomalies in real time; tax functions must keep pace.

Four forces have pushed indirect tax from the back office onto the board's agenda.

The digital turn in enforcement

It is this fourth force, expressed through the digitalization of reporting, that has done most to drag VAT into the boardroom. Electronic invoicing replaces paper and PDF with structured, machine-readable data that systems exchange and validate automatically; in many regimes it operates on a clearance model, where the tax authority validates an invoice before it can even reach the buyer. The Standard Audit File for Tax lets authorities pull a complete, standardized extract of a company's accounting and tax data and audit it digitally. Continuous transaction controls report transactions to the authority at or near the moment they occur. Taken together, these mechanisms mean the administration no longer waits years to inspect a sample of invoices; it sees the population, in something close to real time, and it reconciles the feeds against one another automatically.

The European Union's "VAT in the Digital Age" package, adopted in 2025, codifies this shift for the bloc, mandating structured e-invoicing to the European EN 16931 standard and digital reporting for intra-EU business-to-business transactions from 1 July 2030. But Italy, Poland, Romania, France, Belgium, Germany and others have already introduced or announced domestic mandates, and comparable systems operate well beyond Europe. The precise dates matter less than the structural change they represent. The discipline that until recently rewarded a tidy filing now rewards clean, consistent, reconcilable data — because the data is what the authority actually reads.

The discipline that until recently rewarded a tidy filing now rewards clean, consistent, reconcilable data.

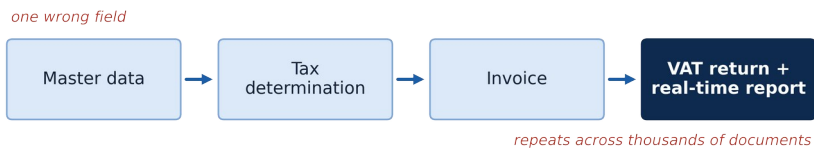
This is the shift in posture that defines the modern indirect tax function. Where the old model was periodic and retrospective, the new model is continuous and pre-emptive. Errors must be prevented before they are reported, because once they are reported in real time they are visible immediately and at scale. And because the only reliable way to prevent systematic error is to fix it at source — in the commercial design, the master data and the system configuration —

indirect tax has become, unavoidably, a matter of business design. The remainder of this book is, in effect, an extended account of how to design it well.

CHAPTER 2

The Anatomy of VAT Risk

IF INDIRECT TAX IS NOW a strategic concern, the natural first question is: what, concretely, can go wrong? VAT risk is the possibility that mistakes in charging, reclaiming or reporting the tax lead to penalties, interest, lost recovery or back taxes — and, increasingly, to reputational damage. What makes it distinctive is the embeddedness described in the preface. Because VAT sits inside everyday operations, its risks have a domino quality: an error in master data flows into determination, determination flows into invoicing, invoicing flows into the return and the real-time report, and a single root cause surfaces as a cascade of downstream failures. Managing VAT risk is therefore less about catching individual mistakes than about controlling the processes and data that generate them.



A single root cause cascades downstream — indirect-tax error is systematic, not incidental.

How one error repeats: a single root cause cascades through every downstream document.

A catalog of recurring exposures

The recurring exposures are well known and remarkably consistent across organizations. They begin with non-compliance with local rules and the misclassification of transactions — applying the wrong rate, treatment or exemption — which feed directly into inaccurate reporting. They include the failure to register where an obligation exists, and faulty input-tax recovery, where VAT is reclaimed without entitlement or, just as costly, left unclaimed where entitlement is clear. Cross-border transactions are a category of their own, because the place-of-supply rules, the evidence requirements and the treatment of chains and triangulation are where most organizations

are weakest. Underlying all of these are the structural weaknesses: poor record-keeping, weak internal controls, a system landscape misaligned with the local regimes it is supposed to serve, and an inability to keep pace with legislative change. To these the digital era adds technology-integration failures — the points where data passes between systems and is corrupted or lost — and the risk, particularly acute in cross-border supply chains, of being drawn unwittingly into someone else's fraud. Almost every item on this list is systematic rather than one-off, which is precisely why the defenses are systematic too: complete records, strong controls, well-configured systems, regular testing and specialist judgment.

The money: penalties and cash flow

Two financial consequences give these risks their weight. The first is penalties. Most VAT penalties arise not from fraud but from ordinary administrative failure — late filing, inaccurate reporting, late registration, the wrong rate, inadequate records. Across Europe the sanctions range from fixed fees to percentages of the unpaid tax, and in cases of deliberate evasion they can far exceed the tax at stake and carry criminal liability. The design principle is consistent everywhere: the cost of non-compliance is set so that it outweighs the cost of getting it right. With standard rates reaching 25 percent across much of the European Union and 27 percent in Hungary, the highest in the Union, even a modest error rate applied to a large transaction volume produces numbers that command attention.

The second consequence is the one most often overlooked: cash flow. Because VAT is charged on revenue rather than profit, and because a business both collects output tax and pays input tax, indirect tax has a direct and continuous effect on working capital. Cash improves when output tax is lawfully reduced or deferred and when input tax is increased or accelerated; it deteriorates through a familiar set of leaks — delayed refund claims, under-claimed input VAT, overlooked regulatory changes, cross-border errors, inefficient filing, unused exemptions, supply-chain inefficiencies, manual processing, the failure to use VAT grouping, and forecasting built on inaccurate figures. Schemes such as cash accounting and flat-rate accounting can protect cash further in the right circumstances.

Treated deliberately, VAT becomes a measurable lever on working capital rather than a silent drag on it.

Measuring the exposure correctly

A recurring error in how organizations think about VAT is to measure their exposure by the net balance between output and input tax — the figure that lands on the return. That number badly understates the real position. The more honest measure is the total VAT an organization handles, sometimes called VAT under management or VAT throughput: the gross flows on both sides, across every jurisdiction, that the business is responsible for getting right. For a large multinational this figure can run into the billions of euros a year, and expressing it that way is often the single most effective means of winning senior-management attention, because it reframes VAT from a small net number into one of the largest values passing through the company's systems. Neutrality — the principle that VAT should ultimately be cost-free to a fully taxable business — is not automatic. It has to be earned by meeting both the formal requirements, such as holding a valid invoice, and the material ones, such as the supply genuinely qualifying for the treatment claimed. Where those conditions are not met, neutrality fails and the tax becomes a real cost.

The data foundation

Beneath every determination and every return lies data, and it is in the data that the most common and most fixable risks live. Consider the humble VAT identification number. In real-world customer and vendor master data, somewhere between 5 and 25 percent of VAT numbers are typically incorrect or invalid, often toward the upper end of that range. Each wrong number can mean that a zero rate was applied to a cross-border supply that did not qualify for it, exposing the business to assessments, interest and penalties in an area where the tolerance for error is effectively nil. Checking a number's syntax confirms only that it has the right shape; confirming that it genuinely exists and is in use requires validation against the European Commission's VIES database. Automated VIES validation, built into master-data creation and into the system's determination process,

closes the gap before it becomes a liability — a small control with an outsized effect.

The same lesson applies to incoming invoices. Determining the correct VAT treatment of a purchase governs both the accuracy of the return and the amount of input tax that can be reclaimed, and it depends on the nature of the goods or services, the supplier's status and location, the place of supply, the applicable rate and the local rules. In practice the two VAT-relevant data sources are the purchase order and the vendor invoice, but invoice data often arrives outside the core system and is coded manually by accounts-payable staff who are not tax specialists. The result is a hidden factory of rework and error — invisible on any single transaction, expensive in aggregate. Self-billing illustrates how even a routine convenience carries embedded compliance conditions: it is lawful across the European Union under Article 224 of the VAT Directive, but only where there is a prior agreement and a procedure for the supplier to accept each invoice, and in Poland, under Article 106d of the VAT Act, most self-billed invoices must from 2026 be issued as structured XML through the national KSeF platform, phased in from large taxpayers in February 2026 to micro-enterprises in January 2027. The detail is the point: in indirect tax, the risk is almost always in the data and the configuration, not in the headline rule.

PART TWO

Designing the Function



From the people and strategy of the tax function to the controls that make compliance demonstrable.

CHAPTER 3

Designing the Indirect Tax Function

HAVING ESTABLISHED WHAT IS at stake, we turn to the organization built to manage it. A strong VAT strategy and operating model is the foundation of effective indirect tax compliance and optimization, and the most important decision an organization makes about indirect tax is not a technical one at all. It is whether the tax function is engaged early, as a designer of the business, or late, as a checker of decisions already taken. The difference determines almost everything that follows.

From gatekeeper to enabler

VAT is best understood not as a narrow tax problem but as a business-design issue. It sits at the intersection of supply chain, pricing, system architecture and customer experience, and the tax function creates value when it is involved upstream in commercial and ERP decisions — and becomes a blocker, resented and bypassed, when it is consulted last. The clearest illustration is the fate of temporary fixes. A workaround introduced into the ERP to get a transaction out of the door under time pressure almost always hardens into a permanent liability, because nothing in a busy organization is as durable as a temporary solution. Mandatory e-invoicing has sharpened the stakes: by converting periodic correction into real-time accuracy, it exposes every weakness in VAT design at the moment of the transaction rather than months later. A tax function that speaks the language of the business — cash, margin, speed and risk — earns the seat upstream; one that speaks only in technical objections is left to clean up afterwards.

The strategic plan and the operating model

A VAT strategy is a documented plan for how the business manages indirect tax compliance, risk and planning, aligned to its wider commercial strategy and signed off by the board. Done well, it allows a new business operation to function effectively from go-live — moving inventory, generating compliant invoices, facing fewer

disputes with non-paying customers, and integrating on time and on budget. It is a living framework rather than a static document, and it must extend to every location in which the business operates. A practical route from intention to practice runs through a small number of connected stages: defining the scope, working through the requirements with the business, drafting the strategy and securing board approval, rolling it out across the organization, choosing the formats and tools that will carry it, and then reviewing it continuously as the business and the law change.

Underneath the strategy sits the operating model, which rests on three connected foundations. Governance means a documented strategy, a clearly defined tolerance for tax risk, and objectives formally endorsed by senior management. Operations mean clear VAT procedures, monitored performance indicators, and a uniform method for evaluating risk across the enterprise. Infrastructure means organized, backed-up records and systems correctly configured for VAT and reporting. The weakest of these is usually infrastructure, and within it, data access: where finance and tax cannot see how transactions are processed and how the systems are configured, data integrity becomes an operational risk, and errors introduced at the point of entry are difficult and costly to unwind later. In many organizations the single highest-impact improvement available is also the most prosaic — replacing spreadsheets with integrated tax technology.

Building the function, and its leadership

An effective indirect tax function is aligned not only with business strategy but with the legal, human-resources and IT functions, and it is run as a designer rather than a reactive query desk. The most common risk indicator across organizations is the absence of a clear strategy for managing both the technical and the operational risks of VAT; close behind it is a structural gap that recurs almost everywhere — no single owner is responsible for the end-to-end VAT accounting process, which leaves the controls that matter most without an accountable home. The profession has changed in response. As freely available online content erased the value of proprietary technical know-how, indirect tax shifted from what one might call an

individual sport, built around the specialist adviser, to a team sport, in which data, technology, process control and soft skills matter as much as technical knowledge. Indirect tax teams remain chronically undersized relative to direct tax teams, and closing that gap requires the right people in the right roles and genuine visibility at CFO level.

Leadership sets the tone. The Head of Tax has become one of the most consequential roles in the modern finance organization, responsible for the overall tax strategy, for compliance, and for risk management, while using lawful planning to reduce cost, protect against risk and create financial value. The role spans five connected areas — compliance and risk management, strategic planning including cross-border structuring, stakeholder engagement with authorities and internal teams, accurate reporting under IFRS and local GAAP, and the building of tax awareness across the business — and it now sits at the intersection of regulation and corporate strategy rather than acting as a compliance function alone. Around the role has grown a broader expectation of corporate fiscal responsibility: the ethical, transparent management of the company's finances, including its tax conduct, for long-term sustainability rather than short-term gain. In an era of public disclosure, how a business is seen to handle tax increasingly shapes how it is seen at all.

Objectives, and the case for investment

Objectives give the function direction, and they should be specific, measurable, assignable, realistic and time-bound, and tied to business outcomes rather than to activity. A subtle but important point recurs in how performance is measured: headline compliance percentages can mislead senior management, because what matters is the residual error rate — the proportion of transactions still wrong after the controls have run — not the proportion processed. Managing every conceivable risk is neither efficient nor realistic, so resources should follow a risk assessment and the company's stated appetite. None of this is achievable without investment, and securing it is its own discipline. The tax function must build a business case that links its priorities to outcomes leadership already values — improved cash flow, lower cost, streamlined processes and managed risk — expressed in financial terms and grounded in the company's

own objectives. It must treat executive management, finance and IT as in-house clients with their own satisfaction criteria, and it must close a persistent perception gap, because the C-suite routinely ranks indirect tax as a lower priority than the tax function believes it deserves. The business case is how that gap is closed.

CHAPTER 4

Governance, Control, and Audit Readiness

STRATEGY DESCRIBES INTENT; CONTROL proves it. The defining feature of the modern era is that a tax position can no longer simply be asserted — it has to be demonstrable, evidenced by controls that have been designed, operated and tested. This chapter is about the machinery that turns a good strategy into a defensible reality, and about the external regimes and professional roles that hold it to account.

From business control to tax control

The starting point is the relationship between two frameworks. A business control framework is the comprehensive system an organization uses to keep its operations efficient, effective and compliant, built on governance, disciplined risk management and control, with the board responsible for satisfying itself that appropriate controls are designed and maintained. A tax control framework is the part of that system focused specifically on tax risk and tax compliance — a specialized layer inside the wider whole. The two share the same goals of managing risk, ensuring compliance and operating efficiently, and the tax control framework inherits its authority from the business framework above it. For VAT specifically, the materiality of a risk cannot be judged on absolute amounts alone, because a VAT control framework is concerned not only with paying the right amount of tax but with avoiding risks that damage the reputation of the company. The framework is adequate when it gives the organization insight into where material VAT risks may arise, establishes a defined tolerance for those risks, and applies appropriate controls — with each category of risk reviewed for its likelihood, its potential impact and the measures that mitigate it.

Moving such a framework from concept to practice is harder than designing it, and the obstacles are revealing. While the rates of direct taxes such as corporate income tax have generally fallen, indirect tax rates have continued to rise, and for the largest multinationals the VAT under management can exceed €5 billion a year — yet surveys

by the major firms consistently find that control mechanisms remain inadequate and that the key performance indicators needed to monitor them have never been properly developed, leaving financial executives unaware of the exposure. Real change must originate inside the organization; advisers can press the case, but without the commitment of the people who run the processes, little moves. In practice that means giving the indirect tax department a clearly defined position in the organization, the budget and resources to meet its objectives, and explicit accountability for outcomes.

The external anchor: Sarbanes-Oxley

For many organizations the control conversation is anchored by external regulation, and the archetype is the Sarbanes-Oxley Act of 2002. Enacted in the United States after the accounting scandals at Enron, WorldCom and Tyco destroyed billions in investor value, SOX strengthened corporate governance and accountability by setting rigorous standards for how public companies prepare and audit their financial statements, with the dual aims of preventing fraud and ensuring genuine transparency. Its relevance to indirect tax is direct rather than incidental: tax accuracy is inseparable from the reliability of financial reporting. Correct tax-determination logic in the ERP keeps the financial statements accurate, prevents the invoicing errors that generate customer disputes, and gives auditors clear evidence that reporting can be relied upon. An incorrect VAT configuration, by the same logic, is not merely a tax problem; it distorts the financial statements, creates audit exposure, disrupts cash flow and slows everyday processing. Maintaining the determination logic in step with changing law — through controlled change management, testing after every change, documentation and clear ownership — is thus a core internal control, not a housekeeping task.

The people who hold it to account

Three roles give the control environment its human shape. The chief financial officer has moved from overseeing tax compliance to owning tax strategy, risk management and transparent reporting, aligning tax decisions with long-term goals and answering for them

under standards such as ASC 740 and IFRS; as regulation grows more complex and faster-moving, the CFO's oversight has become central to financial performance and to reputation. The certified public accountant provides assurance: reviewing returns and their supporting documentation, confirming that VAT is correctly recorded and classified across the financial statements, testing the internal controls around VAT, assessing risk, and reconciling the VAT accounts to the general ledger so that discrepancies surface before a reporting deadline rather than after it. And investors increasingly form a view of their own, valuing predictability, fairness, sensible incentives and alignment with economic conditions; because VAT is charged on revenue rather than profit, it can compress margins and strain cash flow, and companies that manage compliance, pricing and refunds well earn a measure of investor confidence that those who do not forfeit.

Making control demonstrable

Control that cannot be demonstrated is, for practical purposes, no control at all, and a set of tools exists to make it visible. The first is to abandon the spreadsheet for anything material. Spreadsheets are flexible and familiar, but their weaknesses — manual error, weak version control, limited audit trails, fragile data integration and poor scalability — are exactly the qualities VAT compliance cannot tolerate, and dedicated software integrated with the ERP reduces effort, improves accuracy and lowers audit risk. The second is measurement. Statistical sampling lets an organization quantify the error rate and likely exposure across a transaction population too large to check in full, turning an unmanageable volume into a defensible, evidence-based figure. Closely related is the zero measurement — a simulated audit, run internally before any real one, that tests the controls, locates the evidence behind each position, and exposes weaknesses while there is still time to fix them. Continuous controls monitoring takes this further: tools that run inside the ERP can independently re-determine the tax on every billing document and compare it against the system's own result, surfacing discrepancies before the VAT is ever reported, often through a simple traffic-light dashboard covering both the sales and the finance side of

the ledger. A periodic SAP VAT review tests configuration, data, recovery, controls, access and integrations against current law and produces a roadmap of gaps; and user acceptance testing provides the traceable sign-off that confirms a solution behaves as intended before it reaches production.

All of this feeds a single capability: audit readiness. An audit defense strategy is a structured plan that lowers the time, cost and risk of an audit by understanding the organization's material tax risks in advance and keeping the supporting evidence in a state that can be produced on demand. The effective posture is proactive rather than reactive — find the weaknesses before the authorities do, document the positions clearly, and maintain a transparent relationship with the administration to speed the resolution of disputes. In the digital era, audit-ready IT systems and data integrity matter as much as paperwork, because the authorities now run their audits directly on SAF-T files and real-time invoice data. The organization that has already read its own data the way the authority will is the one that survives the audit intact.

PART THREE

Indirect Tax in the System



How an ERP such as SAP actually decides the tax — at the core, at the cross-border edges, and in reporting.

CHAPTER 5

VAT in the Machine: How SAP Decides

A tax engine should reflect your supply chain, not redesign it. Wrong master data does not produce an error message; it produces a confidently wrong tax result.

EVERYTHING DISCUSSED SO FAR — strategy, control, audit readiness — ultimately has to be encoded in a system, because in a large organization it is the system, not a person, that determines the VAT on each of millions of transactions. For most multinationals that system is SAP, and the way VAT is designed and configured within it is where good intentions either become reliable outcomes or quietly fail. This chapter goes into the engine room to see, in concrete terms, how the machine reaches a tax result.

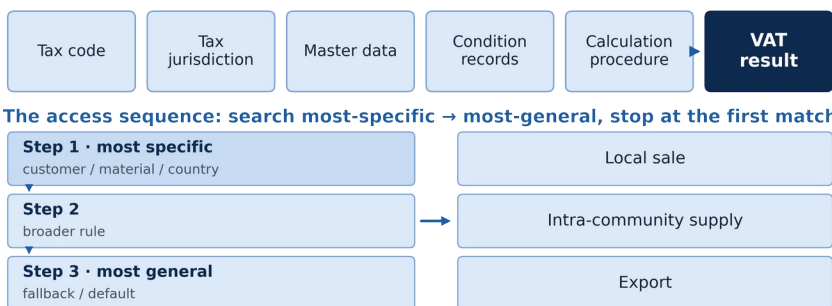
Determination as an assembly of layers

SAP does not hold a single setting that dictates the tax on a transaction. Instead it assembles the answer from several layers — tax codes, tax jurisdictions, master data, condition records and calculation procedures — weighing the location of the parties, the nature of the transaction and the classification of the product or service. This determination logic sits at the heart of the Sales and Distribution and Materials Management modules, where the tax consequences arise, and posts through to Financial Accounting, where the figures become the accounts. A tax code is the identifier that bundles a rate, a tax type such as VAT or GST, and the general-ledger accounts the tax affects, so that the treatment is applied consistently across every posting that uses it.

The most instructive pair of building blocks is the condition record and the access sequence, because together they show how the system actually searches for an answer. A condition type defines what kind of condition exists — a base price, a discount, a tax. A condition record holds the actual value and the precise circumstances in which it applies: a particular rate, for a particular

combination of criteria, valid between particular dates. The access sequence is the search strategy that finds the right record. It is an ordered list of access steps, each pointing to a condition table built from key fields such as customer, material, country and tax classification, and SAP works through the steps in turn, from the most specific to the most general, stopping at the first valid record it finds. For VAT, an access sequence might first test the precise combination that distinguishes a local sale from an intra-community supply and from an export, and fall back to broader rules only if no specific record matches. Because the search stops at the first hit, the order of the steps is not a technicality but the substance of the result, and these sequences are configured in the SAP Customizing Implementation Guide and ought to be reviewed whenever the business or the law changes. Underneath all of it sits master data — the stable reference information about customers, vendors, materials, company codes and business partners — which supplies the facts the logic acts on. This is why its integrity is a precondition for everything else: when master data is wrong, the system does not fail loudly; it applies the wrong tax automatically, consistently and silently.

How SAP assembles a tax result



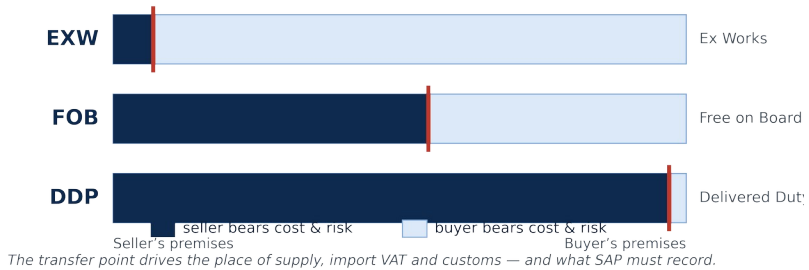
SAP assembles the result from several layers, searching condition records most-specific first.

The configuration that quietly decides the answer

Beyond the core determination logic, a set of configuration elements carries consequences out of all proportion to their obscurity, and each deserves to be understood on its own terms. Incoterms are the standardized trade terms, published by the International Chamber of

Commerce, that define which party bears transport, insurance, duties and risk, and at what point those responsibilities transfer. Because tax treatment depends on where delivery occurs and when risk passes, the Incoterm recorded on a document becomes a direct input to determination: under Ex Works the buyer assumes cost and risk at the seller's premises, under Free on Board the seller's responsibility ends when the goods are loaded, and under Delivered Duty Paid the seller bears everything, including import taxes, until the goods reach the buyer. The choice ripples through six areas at once — cost allocation, tax jurisdiction, the integration of logistics and finance, risk exposure, audit readiness (including any obligation to register for foreign VAT), and customs efficiency — so an Incoterm wrongly recorded is a tax error waiting to be multiplied.

Incoterms: where cost and risk transfer along the journey



Where cost and risk transfer under EXW, FOB and DDP — the event that drives the VAT treatment.

An Incoterm wrongly recorded is a tax error waiting to be multiplied.

When the logistics provider decides the tax

The port of entry is an even sharper example of a logistics attribute that is really a tax decision. In SAP it is the location at which goods cross into a customs territory, and it governs three things simultaneously: customs clearance, inventory tracking, and the calculation of import duties and VAT. The traditional assumption was that routing decisions are made internally and then encoded in SAP. In modern supply chains that assumption is increasingly false, because the decision is often taken upstream by a fourth-party

logistics provider, leaving SAP as a system of record rather than a system of decision. The United Kingdom-to-European Union corridor shows what is at stake: where a logistics provider selects ferries from Dover in real time, the actual country of entry — Belgium, France, the Netherlands or another member state — may be unknown until the vessel has sailed. Import VAT depends on where the goods physically enter, any onward movement may create an intra-EU supply, and the treatment turns on the use of T1 transit and the identity of the importer of record. With no direct interface, the business relied on manual uploads to reflect the actual port of entry, which opened timing gaps between physical execution and tax determination. The lesson generalizes: a fourth-party provider shifts the decision upstream but does not shift the liability away from the business, manual fallback processes must be treated as genuine control points rather than informal workarounds, and SAP tax design has to reflect how decisions are actually made rather than how they are assumed to be made.

IN PRACTICE — THE DOVER FERRY PROBLEM

When a fourth-party logistics provider picks the ferry from Dover in real time, the country of entry — Belgium, France or the Netherlands — may be unknown until the vessel has sailed. Import VAT follows the physical point of entry, so the routing decision is really a tax decision. The choice moves upstream, but the liability stays with the business: manual fallback uploads have to be treated as genuine control points, not informal workarounds.

Three settings that quietly move the numbers

Three further settings round out the picture. Sequential number ranges ensure that invoices carry the gap-free, statutorily compliant numbering many jurisdictions require. Exchange-rate configuration governs how foreign-currency transactions are converted for VAT purposes, including conversion into the tax currency of the country where the tax is reported. And the tax reporting date deserves particular care, because it embodies a distinction the law draws but systems often blur. VAT becomes chargeable at the tax fulfillment

date — the chargeable event, usually the supply of the goods or services, though it can fall earlier, as when an advance payment is received. The tax reporting date is the deadline for declaring that tax, and it is never earlier than the fulfillment date. Countries including Poland, the Czech Republic, Hungary, Slovakia and Spain require both dates to be carried in the journal entries for tax items, and because the fulfillment date is tied to the actual delivery date, a company that does not record that date reliably in SAP will struggle to report in the correct period — with particular difficulty around prepayments, postponed accounting and recurring services. None of these settings is glamorous; each can place VAT in the wrong period, the wrong jurisdiction or the wrong amount if it is wrong.

The engine, and the discipline behind it

Because native configuration is demanding, many organizations consider a dedicated tax engine bolted onto the ERP, and the way that decision is framed reveals a great deal about how well it will go. The essential principle is that a tax engine should reflect the supply-chain design, not define it. An engine fed wrong master data produces confidently wrong results; automation is not plug-and-play but depends on standardized order-to-cash, procure-to-pay and intercompany processes; and acquisitions amplify operational diversity rather than resolving it unless a clear integration strategy exists. The corollary, and the standard to hold every vendor to, is that the engine must adapt to the business rather than the business to the engine. An engine that works only once the company has rebuilt its processes or restructured its supply chain is exporting its own inflexibility onto operations — and onto suppliers and customers, in the form of rejected invoices, payment delays and logistics friction. The right questions before purchase are therefore governance questions, not product questions: is the tax design stable, is ownership of the tax logic clear, and does SAP remain the single source of truth? In acquisition-heavy or multi-model groups, a tax engine does not reduce complexity so much as expose it, and one bolted onto an unstable design merely automates the existing problems at scale.

The failures, when they come, follow a recognizable pattern. VAT determination in SAP is meant to be a controlled, rules-based process, yet it remains one of the most common sources of indirect tax error, audit findings and business disruption — and when it goes wrong it is rarely a single obvious mistake. It is almost always the accumulation of design gaps, weak master data, and business changes that were never translated into the system's tax logic. Aggressive blocking controls imposed without documented fallback procedures create their own hazard, surfacing as a red flag in due diligence when a company comes to be sold or floated. The remedy is consistent with everything in this book: robust design and clean data prevent most failures before they occur, and the system produces correct tax only when it faithfully reflects a well-designed, well-documented business model.

CHAPTER 6

When the System Meets the World

A WELL-CONFIGURED SYSTEM DETERMINES tax reliably for the transactions it was designed for. The difficulty is that modern trade is full of transactions no standard configuration anticipates, and it is precisely at these edges — multi-party chains, cross-border stock movements, automated interfaces — that indirect tax most often goes wrong. This chapter is about what happens when the machine meets the messy reality of how goods and data actually move, and about the discipline of putting the system right.

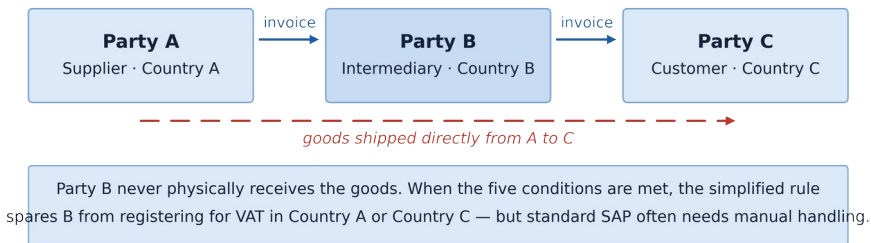
Where standard SAP runs out

Standard SAP determines VAT reliably for simple, single-entity transactions, but it was not built for the multi-party chains that characterize modern trade, and knowing where it runs out is itself a control. Native determination struggles with drop shipments, with chain transactions and with import and export flows, where the financial exposure can be significant. The practical question an organization faces is whether to enhance standard SAP or to implement a dedicated external tax engine, and the right answer turns on the complexity and risk of the transactions involved rather than on the appeal of any product. The honest starting point is to map, candidly, which of the business's real transaction patterns the standard system handles correctly and which it does not.

EU simplified triangulation is the canonical hard case. It describes an ABC chain in which three parties, VAT-registered in three different member states, trade goods that are shipped directly from the first party to the last; the middle party, B, acts as an intermediary and never physically receives the goods. Without a special rule, B would be treated as taking title in either the country of dispatch or the country of arrival and would have to register for VAT there. The simplified rule removes that burden, but only when a precise set of conditions is met: there must be three parties identified for VAT in three different member states; B must be established in neither the country of dispatch nor the country of arrival; the goods must move

directly from the first country to the last; the final party must be registered for VAT in the country where it receives the goods; and the transport must be arranged in the first leg of the chain. The complication for SAP is concrete. If the supplier or the ship-from location is not properly set up in the system, the ship-from country is not known during sales and billing, so standard SAP cannot recognize the scenario and requires manual intervention — which means training sales-order and customer-service staff to identify triangulation and establishing detective controls to catch the cases they miss, unless the standard functionality is enhanced to recognize the pattern automatically.

EU simplified triangulation (A - B - C)



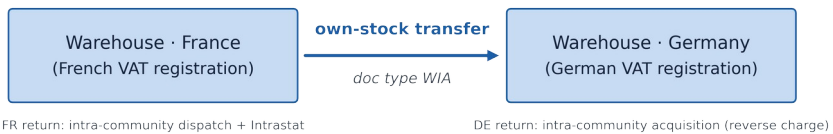
Simplified triangulation: goods move from A to C directly while B invoices in the middle.

Cross-border movements of a company's own stock are a second hard case, and SAP's "Plants Abroad" functionality exists to address them. It allows a single company code to manage VAT obligations in several EU countries where the business holds stock and is VAT-registered, applying the correct registration number on invoices and handling cross-border stock transfers and consignment correctly. Activating it adds a "Tax Reporting Country" field to the tax-code properties — a field that also appears on the VAT return and the EC Sales List — together with a currency field for converting amounts into the tax currency of the reporting country, and it removes the need to create a separate company code for every European plant or to run manual processes for VAT and Intrastat. A worked example shows the mechanics: a cross-border intra-company transfer between a warehouse in France and a warehouse in Germany is treated, for VAT, as a fictitious intra-community transaction, generating a special

plant-abroad invoice (document type WIA), an intra-community acquisition reported under the reverse charge in the German return, an intra-community dispatch in the French return, and corresponding Intrastat entries. One important caveat is widely misunderstood: Plants Abroad improves VAT and Intrastat reporting and exchange-rate handling, but it does not eliminate the underlying complexity of tax determination, which still has to be designed correctly.

Plants Abroad: one company code, two VAT registrations

Single SAP company code · new 'Tax Reporting Country' field on the VAT return & EC Sales List



Treated as a fictitious intra-community transaction: one physical move, coordinated VAT entries in both countries.

Plants Abroad: one company code reporting VAT in two countries on a single stock movement.

One template, many jurisdictions

A subtler edge is the conflict between a uniform global configuration and the territorial rights under which a business is actually permitted to trade. When SAP is set up for a single, standardized global process while the company's legal rights differ by region, the mismatch surfaces in four areas — data residency, sales and tax regulation, accounting standards, and cross-border supply chains — and is resolved only by configuring the system to respect the rules that genuinely apply rather than forcing one template onto every market.

When systems exchange data: EDI

Because so much of this data now moves between systems automatically, electronic data interchange deserves explicit attention. EDI is the backbone of automated invoice processing, and its failures arise from six recurring causes: misconfiguration, poor data quality, connectivity problems, external-partner issues, changes in EDI standards, and internal system faults. The tax consequence is

specific. Outbound and inbound flows are linked, so an incorrect outbound determination propagates into the inbound data; the EDI mapping dictates which tables exchange tax information, and where an essential data combination is missing from the EDI table, invoices either stall in the queue or post with the wrong tax. Remediation is not merely adding the missing combination keys; it requires reviewing the whole transaction — the parties, the tax jurisdictions and the applicable rates — because an intra-EU acquisition may legitimately attract more than one VAT rate depending on how the product is classified, and the table has to be built to reflect that.

Migration as the opportunity, governance as the discipline

The best moment to put all of this right is a system migration, because a migration is the rare opportunity to standardize tax rules and introduce automation from day one rather than inheriting years of accumulated workarounds. In a migration, tax determination is the configuration that calculates the correct tax on every sale and purchase and routes it to the right ledger accounts, statutory filings and e-invoicing; getting it right before go-live is critical, because errors carried into production cause penalties, failed e-invoicing, unpaid customer invoices, lengthy reconciliations and reputational damage. The decisive move is therefore to treat tax determination as a strategic design decision taken early, not as a late configuration task, and to run the work as a structured project — design, build, test, deploy — in which tax, finance and IT collaborate from the outset.

A migration is the rare opportunity to standardize tax rules from day one, rather than inheriting years of accumulated workarounds.

Such a program must be governed rather than improvised, because a tax-engine or determination implementation is both a technical and a regulatory transformation, reaching across ERP integrations, finance processes, statutory reporting and the audit trail. At the center of the governance sits a steering committee: a lean body of roughly eight to twelve members drawn from tax, finance, IT, the vendor, legal and audit, operating under a documented charter with defined decision rights and a RACI so that approvals never stall.

It should meet monthly or fortnightly, work from a concise decision pack circulated forty-eight hours in advance, and enforce pre-go-live acceptance gates covering data, testing, reconciliation and tax accuracy before authorizing the cutover, rollback and hypercare plans. Beneath it, capability is layered: a program office coordinates the integration, configuration, data-migration and testing workstreams; tax and finance leads ensure the engine reflects real statutory and accounting requirements; technical leads and architects translate those requirements into a secure, working configuration; and supporting functions handle data, quality assurance, change and training, compliance and post-go-live operations. The point of this structure is not bureaucracy but ownership — ensuring that the regulatory, process, technical and change dimensions are covered by design rather than discovered late.

ON THE STEERING COMMITTEE

A lean body of 8–12 people drawn from tax, finance, IT, the vendor, legal and audit, working under a documented charter with clear decision rights and a RACI. It meets monthly or fortnightly from a concise decision pack and enforces pre-go-live acceptance gates — data, testing, reconciliation and tax accuracy — before sign-off on the cutover, rollback and hypercare plans.

The modern reporting stack

Around the core ERP, a modern reporting stack now completes the picture. SAP Document and Reporting Compliance automates VAT returns, e-invoicing and SAF-T reporting across multiple jurisdictions, providing a single framework to keep pace with changing formats and deadlines and to reduce the mismatches between systems that authorities now actively look for. The SAP Business Technology Platform provides the data-management, integration and development environment on which custom tax logic, controls and digital reporting are increasingly built. And SAP Fiori supplies the role-based, modern interface through which tax and finance users actually interact with these processes, reducing the manual effort

involved in determination, reconciliation and reporting. The tools matter, but the lesson of these two chapters does not change with them: the system produces correct tax only when it faithfully reflects a well-designed, well-documented business model resting on clean data — and only when someone has thought carefully about the transactions that lie beyond the standard case.

CHAPTER 7

Reporting in the Digital Age

IF THE SYSTEM IS where VAT is determined, reporting is where it is now scrutinized — continuously, and against itself. The reporting layer has become the most visible front line of indirect tax, because it is here that the real-time, data-driven enforcement described in the preface actually operates. Understanding the obligations is necessary; understanding how they interlock is what keeps an organization out of trouble.

The European framework and its filings

VAT in the European Union is applied at every stage of the supply chain across all member states under the shared VAT Directive, but each state administers its own regime within that common framework, which is what makes cross-border reporting complex. A business registers once its turnover passes a national threshold, charges the correct national rate, issues compliant invoices, and files periodic returns that offset the VAT it has paid against the VAT it has collected. Cross-border and e-commerce trade then layer on further obligations: EC Sales Lists, Intrastat declarations, and the One-Stop Shop that consolidates certain cross-border filings into a single return. EC Listings reporting — the recapitulative statements through which VAT-registered businesses report supplies to customers in other member states — exists to make intra-community trade transparent, to deter fraud and to let authorities confirm that VAT is correctly accounted for; businesses typically file monthly or quarterly, reporting the VAT numbers of both parties, the value and nature of each supply and its date, and errors can trigger fines and jeopardize the zero-rating of the underlying cross-border sales. Intrastat, introduced in 1993 alongside the Single Market to replace internal customs declarations, collects statistical data on the movement of goods between member states; it is triggered by national thresholds, filed monthly or quarterly and almost always electronically, and although its purpose is primarily statistical it also supports the

detection of VAT fraud, with compliance remaining the business's own responsibility from the moment a threshold is crossed.

The mechanisms of digital reporting

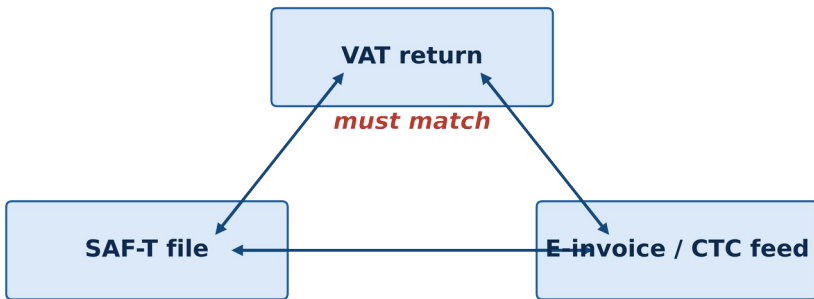
Sitting across these filings are the digital mechanisms that have changed the character of reporting. Electronic invoicing exchanges structured, machine-readable invoices that systems validate automatically, often under a clearance model in which the authority approves an invoice before it reaches the buyer. The Standard Audit File for Tax, created by the OECD in 2005 and extended in its 2010 version 2.0 schema to cover inventory and fixed assets, provides a standardized electronic extract of accounting and tax data that authorities audit digitally; it is now mandatory in countries including Portugal, Poland, Norway and Romania, with each administration tailoring the data and submission rules so that national implementations differ in detail even as they share a common form. These are not separate from the system chapters that precede this one; they are the points at which the configuration of the ERP becomes visible to the state.

The reconciliation imperative

The single most important consequence of all this is also the least appreciated. Authorities increasingly hold three independent records of the same transaction — the periodic VAT return, the detailed SAF-T file and the real-time e-invoicing feed — and they reconcile them automatically. A discrepancy between the totals on the return and the totals implied by the continuous-transaction-control data has become the single most common trigger for an audit, and unreconciled data leads directly to audits, per-invoice penalties, frozen refunds and findings of non-compliance. Some administrations make the obligation explicit: in Romania, for example, a taxpayer can be required to explain a discrepancy to the authority within ten days once it exceeds a set threshold. The defense is structural rather than clerical. It rests on maintaining a single authoritative record of each transaction — a golden record — and on performing the reconciliation oneself, matching return, SAF-T and invoice data at transaction level every month, before the authority does it

automatically and at scale. SAP Document and Reporting Compliance and comparable tools exist precisely to industrialize this work, and the “VAT in the Digital Age” mandate is its eventual destination. Either an organization reconciles its own data, or the authority reconciles it for them — and the second outcome is always more expensive than the first.

The three-way reconciliation



*Authorities hold all three records and reconcile them automatically;
a discrepancy is the most common audit trigger.*

*Return, SAF-T and e-invoice data must reconcile — authorities now match them
automatically.*

PART FOUR

Pressure and the Frontier



The transactions that stress the whole picture, and the adversarial world of fraud, analytics and enforcement.

CHAPTER 8

Transactions Under Pressure

A CONTROL FRAMEWORK REVEALS its true strength not in steady-state operations but under stress, and nothing stresses indirect tax like a non-routine transaction. Mergers and acquisitions, restructurings, cross-border expansion and supply-chain redesign are precisely the events in which the domino effect described earlier accelerates, because they change the legal entities, the flows, the systems and the registrations all at once. They are where indirect tax most needs to be designed in from the start, and where it is most often left until last.

Mergers and acquisitions

In a merger or acquisition, indirect taxes run through nearly every operational process — raising invoices, moving inventory, paying suppliers, collecting cash — so the embedded risk that exists in any business is amplified at exactly the moment the organization is least stable. The traditional approach to indirect tax due diligence concentrated on identifying and quantifying historical exposure so that it could be priced into the deal or covered by indemnities, and that work remains the starting point. But it is only the starting point, because how the indirect tax profile will function after the deal matters at least as much as what it was before. With EU VAT rates reaching 25 percent, and 27 percent in Hungary, even small invoicing or registration errors become materially expensive when multiplied across a newly combined transaction volume, and a single VAT registration can, in some jurisdictions, crystallize a permanent establishment and so increase the corporate income tax exposure of the deal. Invoicing is where a half-finished integration most often fails — a legacy system only partly connected to the new model generates incorrectly coded invoices, delayed recovery and disputes — which is why ownership of the ERP configuration and of the registrations must be assigned up front. Effective management therefore spans the whole arc of the transaction: due diligence, structuring, implementation and integration.

Changing the business model

A change of business model reshapes how VAT flows through the company, and the indirect tax consequences — registration, invoicing, inventory, customs and system configuration — must be designed in from the outset rather than bolted on once the legal and financial restructuring is complete. A classic principal structure can improve profitability, but it obliges the business to register for VAT wherever it holds inventory; moving from a commissionaire arrangement to a limited-risk distributor changes both the VAT accounting and the underlying SAP logic. The largest risks in these changes are missed registrations, the misclassification of transactions, customs delays and invoicing errors, and the conditions for managing them well are organizational as much as technical: senior-management support, a sound business case, structured project management and early IT integration.

Crossing borders, and consolidating functions

Expansion into a new jurisdiction exposes a business to unfamiliar rates, registration rules, reporting formats and recovery procedures, and the most frequent source of error is simply carrying assumptions over from an existing market. Many jurisdictions require a foreign business to register even without a physical presence, and late registration causes import and shipping delays as well as penalties; cross-border treatment also feeds back into pricing and supply-chain decisions, so it should be reassessed before the move rather than after it. A subtler stress comes from finance transformation itself. When VAT and GST responsibilities are consolidated into a shared service center, the responsibility for indirect tax migrates with them — often from experienced local teams who understood the country's rules to a distant location with new process owners and higher staff turnover. The complexity of managing many jurisdictions, languages and authorities from a single center rises sharply, and indirect tax is too often absent from the strategic planning of these migrations even though it is one of the functions most exposed by them. In each of these cases the lesson is the one that runs through the whole book: the time to address indirect tax is before the change is made, because afterwards the errors are already in the system.

CHAPTER 9

The Adversarial Frontier

THE FINAL DIMENSION OF modern indirect tax is openly adversarial. VAT's structure — collected by businesses on behalf of the state, with a gap in time between the moment tax is charged and the moment it is remitted — creates an opening that has been exploited on an industrial scale, and the response to that exploitation is reshaping the rules and the technology for every taxpayer, honest or otherwise. Understanding the frontier is not optional, because the same tools built to catch fraud now define the environment in which ordinary compliance takes place.

Fraud, and the line that separates it from avoidance

VAT fraud is the deliberate evasion of the tax, and because VAT is added at multiple points in the supply chain it can occur at almost any stage. Its recognized forms include carousel, or missing-trader intra-community, fraud; false invoicing; the underreporting of sales; refund fraud; and the misuse of exemptions. The scale is staggering: the European Union's VAT gap attributable to non-compliance has been estimated at around €170 billion a year, roughly 15 percent of expected revenue, and its consequences run from lost public revenue and distorted competition to higher compliance costs, criminal penalties and eroded public trust. Fraud must be distinguished sharply from avoidance. Tax avoidance is the lawful reduction of liability through the deductions, credits, exemptions and incentives the tax code itself provides; it is legal, though aggressive avoidance is frequently contested on grounds of fairness and is increasingly targeted by measures such as the OECD's base-erosion and profit-shifting initiatives. Evasion is illegal. The distinction is fundamental, and for a legitimate business the real exposure is less the temptation to commit fraud than the danger of being drawn unwittingly into someone else's — which is why know-your-counterparty controls and VAT-number validation belong in the compliance framework rather than only in the fraud team's remit.

How governments are closing the gap

Governments have responded with mechanisms designed to remove the opportunity rather than merely to punish its exploitation. The split payment is the clearest example: it separates the tax portion of an invoice from the net sale, so that the buyer pays the net amount to the supplier while the VAT is routed to a dedicated account controlled by, or restricted on behalf of, the authority. By ring-fencing the tax at the moment of payment, the mechanism closes the gap between collection and remittance through which so much fraud flows, securing revenue faster and relieving the compliant business of holding tax in trust. Alongside it, mandatory e-invoicing and continuous transaction controls attack fraud by making transactions visible as they occur. The evidence that this works is now concrete. In Italy, the introduction of the Sistema di Interscambio e-invoicing system coincided with a fall in the national VAT gap from around €35 billion in 2018 to about €16 billion by 2022 — one of the most striking results in modern tax administration. Enforcement has kept pace: the investigations known collectively as “Admiral” exposed the European Union’s largest carousel-fraud network, with estimated damage of around €2.9 billion, and an EU-wide detailed reporting requirement is due by 2030 to target missing-trader fraud directly.

The analytics arms race

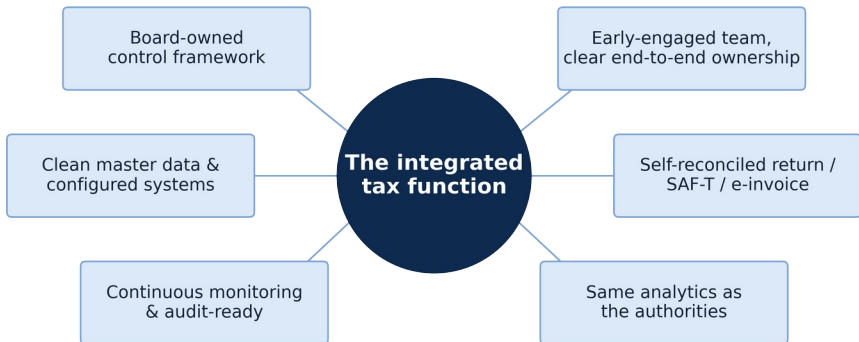
Underpinning all of this is data analytics, and increasingly artificial intelligence and machine learning. These technologies let authorities analyze volumes of financial data at a speed and consistency no human auditor can match, detect anomalies and fraud with greater precision, prioritize the cases most likely to yield findings, and apply the rules more uniformly — which makes enforcement not only faster and better targeted but, in an important sense, fairer, because automation reduces the inconsistency and bias of human selection. The same capability is available to taxpayers, and this is the decisive point for any organization reading this book. Reviewing one’s own historical data with the same techniques exposes compliance weaknesses early, while there is still time to correct them and before they harden into an assessment. The era of real-time data is, in this respect, symmetric: the authority and the taxpayer increasingly have

access to the same kinds of analytics, and the taxpayer who declines to use them defensively is choosing to see less than the administration auditing them. The standing caveat applies on both sides — a model is only as good as the data it learns from, and meaningful human oversight remains essential — but the direction is set. Defensive analytics has become part of the control framework, not an optional enhancement to it.

Conclusion: The Integrated Tax Function

THE CHAPTERS OF THIS book have traveled from the strategic to the granular and back again — from the boardroom recognition that indirect tax is now a material risk, through the anatomy of that risk, the design of the function and its controls, the configuration of the systems that determine the tax, the edges where those systems meet the real world, the reporting layer where everything is now scrutinized, the transactions that stress the whole picture most, and the adversarial frontier where fraud and analytics meet. What should be clear by the end is that these are not separate subjects. They are facets of a single discipline, and the organizations that manage indirect tax well are precisely those that refuse to treat them separately.

That integrated function has a recognizable profile. It rests on a tax control framework owned at board level and sitting inside the wider business controls. Its indirect tax team is engaged early and aligned with the commercial, legal, IT and finance functions, with clear ownership of the end-to-end VAT process rather than the diffuse responsibility that leaves the critical controls unmanned. It runs on clean master data and well-configured systems, because it understands that in a real-time world the data is the compliance; it knows where its standard configuration runs out, and it has designed deliberately for the triangulations, the cross-border stock movements and the automated interfaces that lie beyond the simple case. It reconciles its own return, SAF-T and invoice feeds before the authority does, and it keeps itself audit-ready through simulated audits and continuous monitoring rather than scrambling when an inspection is announced. And it has adopted the same analytics that the authorities use, turning the symmetry of the digital era to its own advantage.



The profile of an integrated indirect tax function.

Across strategy, systems, reporting, transactions and fraud, one conviction has run through every chapter, and it is the right note on which to end. Indirect tax has become a real-time, data-driven, board-level discipline, conducted in front of authorities who can see and reconcile transaction data as it is created. In that environment the decisive work is done early — in the design of the business, the integrity of the data and the strength of the controls — because an error that reaches the system does not stay small. It repeats. The task, and the opportunity, is to get the design, the data and the controls right before it has the chance to.

About the Author



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RICHARD IS THE FOUNDER and CEO of KGT and a former EY Indirect Tax Partner with over 30 years of experience. He studied tax law at the University of Leiden, where he earned a master's degree in law. Early in his career at Andersen, Richard established one of the first business units at a Big Four firm dedicated to the intersection of indirect tax, ERP, and SAP.

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Big Four firms operate under audit independence requirements that confine them to an advisory role and prevent them from developing products that affect financial reporting. Richard founded KGT to close that gap, providing end-to-end solutions spanning SAP VAT advisory, optimization of tax determination logic, SAP configuration, and development of custom SAP add-ons that extend SAP's functionality.

Glossary

Access sequence — The ordered search SAP follows through condition tables, from most specific to most general, stopping at the first matching record.

Chargeable event (tax point) — The moment a VAT liability arises, usually the supply of goods or services — sometimes earlier, as on an advance payment.

Condition record — The stored value and the precise circumstances — rate, criteria and validity dates — under which a tax condition applies in SAP.

Continuous transaction controls (CTC) — Reporting of transactions to the tax authority at or near the moment they occur.

DRC (Document and Reporting Compliance) — SAP's framework for automating VAT returns, e-invoicing and SAF-T reporting across jurisdictions.

EC Sales List — A recapitulative statement reporting intra-EU supplies to VAT-registered customers in other member states.

E-invoicing — Exchange of structured, machine-readable invoices, often validated by the authority before reaching the buyer (a clearance model).

Incoterms — Standardized ICC trade terms defining which party bears transport, insurance, duties and risk, and where responsibility transfers.

Input / output tax — VAT incurred on purchases (input) and charged on sales (output); the difference is paid to, or reclaimed from, the authority.

Intrastat — The statistical declaration of goods moving between EU member states, introduced with the Single Market in 1993.

MTIC / carousel fraud — Missing-trader intra-community fraud, in which VAT is charged but never remitted across a chain of cross-border transactions.

Pillar Two — The OECD framework setting a 15% global minimum effective tax rate for large multinational groups.

- Place of supply** — The rules determining in which jurisdiction a transaction is taxed.
- Plants Abroad** — SAP functionality letting a single company code manage VAT in several EU countries where it holds stock and is registered.
- Reverse charge** — A mechanism that shifts the obligation to account for VAT from the supplier to the customer.
- SAF-T** — The Standard Audit File for Tax: a standardized electronic extract of accounting and tax data that authorities audit digitally.
- Self-billing** — An arrangement in which the customer issues the supplier's invoice under agreed conditions.
- Split payment** — A mechanism routing the VAT portion of a payment to a controlled account to secure the tax.
- Tax control framework (TCF)** — The part of an organization's control system focused on managing tax risk and ensuring compliance.
- Tax determination** — The process by which a system calculates the correct VAT on a transaction.
- Tax reporting date** — The deadline for declaring VAT; never earlier than the tax fulfillment (chargeable-event) date.
- Triangulation** — An ABC chain in which three parties in three member states trade goods shipped directly from the first to the last; a simplification can relieve the middle party from registering.
- VAT gap** — The difference between the VAT theoretically due and the amount actually collected.
- VAT under management** — The total gross VAT an organization handles across all jurisdictions — a truer measure of exposure than the net balance.
- ViDA (VAT in the Digital Age)** — The EU reform mandating structured e-invoicing and digital reporting for intra-EU B2B trade from 1 July 2030.
- VIES** — The EU system for validating VAT identification numbers.

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A note on sources

This book consolidates, restructures and rewrites the Best Practices series published at globalindirecttaxmanagement.com by Richard Cornelisse (KGT Global Applications). Figures, dates and statutory references reflect the position described in those materials and may change; they are offered for general understanding and not as advice for any specific situation.