

## Immediate Supply of Information on VAT

### BRITACOM virtual seminar. Service and Administration for VAT in Digital Times

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#### 1 Introduction

VAT books are kept according to the rules of the Spanish VAT regulation<sup>1</sup>, which dates from 1992. Since then, book-keeping has benefited from the greater use of electronic means by the Spanish business and the progressive implementation of the electronic invoice, and as a result, the great majority of business and professionals use today electronic systems for book-keeping. This has enabled VAT book-keeping modernization and shortening the time between invoice registration and the effective realisation of the economic transaction<sup>2</sup>.

In order to do so, the VAT regulation was changed in December 2016, by means of Royal Decree 596/2016, introducing the so-called SII (Suministro Inmediato de Información; in English, Immediate Supply of Information), with effects from July 2017. The SII is a new book-keeping system maintained directly in the electronic office of the Spanish Tax Agency in which billing records must be forwarded to the Tax Agency through electronic means in four days' time at most (quasi real-time reporting).

#### 2 Main features of SII

The main characteristics of the SII system are<sup>34</sup>:

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<sup>1</sup> Real Decreto 1624/1992, de 29 de diciembre, por el que se aprueba el Reglamento del Impuesto sobre el Valor Añadido, «BOE» núm. 314, de 31/12/1992, ref. [BOE-A-1992-28925](#)

<sup>2</sup> Real Decreto 596/2016, de 2 de diciembre, para la modernización, mejora e impulso del uso de medios electrónicos en la gestión del Impuesto sobre el Valor Añadido (Recitals), «BOE» núm. 294, de 06/12/2016, ref. BOE-A-2016-11575

<sup>3</sup> IOTA (2018), *Impact of digitalisation in the transformation of tax administrations. Real-time VAT reporting techniques: the Spanish immediate supply of Information system (SII)*, Rosa Prieto and Mercedes Jordán (p. 45-48)

<sup>4</sup> Legal and technical specifications of SII are regulated by the following Ministerial Order: Orden HFP/417/2017, de 12 de mayo, por la que se regulan las especificaciones normativas y técnicas que desarrollan la llevanza de los Libros registro del Impuesto sobre el Valor Añadido a través de la Sede electrónica de la Agencia Estatal de Administración Tributaria establecida en el artículo 62.6 del Reglamento del Impuesto sobre el Valor Añadido, aprobado por el Real Decreto 1624/1992, de 29 de diciembre, y se modifica otra normativa tributaria, «BOE» núm. 115, de 15/05/2017, ref. [BOE-A-2017-5312](#)

- The books to be kept in the electronic office of the Spanish Tax Agency are:
  - Register Book of issued invoices.
  - Register Book of received invoices.
  - Register Book of investment goods.
  - Register Book of specific Intra-Community operations.

- Liable taxpayers:

The SII is mandatory for business registered in Spain with a turnover higher than €6,000,000 (large companies); businesses registered in the monthly VAT refund register (REDEME), and those registered as a VAT group in Spain. All of them must submit monthly VAT returns. The rest of Spanish VAT taxpayers can also enrol on a voluntary basis.

Since 2017, when 54,000 taxpayers were enrolled, there has been a steady increase in the number of enrolled taxpayers, reaching presently the number of 64,358 taxpayers. 938 of them have registered voluntarily. Although they may seem a small number compared to the total of VAT taxpayers, (1.7% of VAT taxpayers), due to the nature of Spanish market and types of companies, they represent a great part (an 80%) of total turnover and thus of invoicing in Spain.

- Information to be supplied:

The main data is the invoice number (and serial number if applicable). The number is essential to identify the invoice and be able to crosscheck issued against received invoices, together with the date of issuance and the issuer's TIN number.

Other fields requested are, as an example:

- Dates – Issuance, transaction, settlement period
- Taxable amount, tax rate
- Type of invoice (complete, simplified, amending)
- Description of the transaction
- Special regimes

For issued invoices, whether the transaction is not subject or exempt from VAT must be informed, and for received invoices, the deductible amount.

- Data reporting deadline:
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Four days both for issued and received invoices.

- Submission methods:

The normal submission method is system to system electronic connection through web services based on the exchange of XML messages. This allows the immediate and continuous supply of bookkeeping information. Exceptionally, for taxpayers with few operations or for the correction of mistakes, a web form is available at the Spanish Tax Agency's web page, where submission of information can be done manually.

### 3 Purposes of SII

The purpose of this system is to provide the Spanish Tax Agency with timely and good quality information in order to facilitate taxpayers' compliance, improve VAT management efficiency, and enable a better control and prevention of fraud.

In the following slides we will enter into detail into some of the measures taken to facilitate compliance such as:

- Simplification of formal obligations : Informative obligations considered redundant have been removed for taxpayers enrolled in SII, particularly
  - o Recapitulative statement
  - o Statement of operations with third parties
- Providing richer information for taxpayers, who can access not only the information provided in their register books, but also the information other tax payers have declared of their operations with them. This allows cross-checking of self-information with third parties' information also registered to the system, and prevents mistakes.
- Assisting in declaration. As we will later discuss, this year 2020 a new assistance service called "Pre303" service has been launched for taxpayers enrolled in the REDEME except for large companies and VAT groups, to assist them in preparing the VAT return (form 303)<sup>5</sup>.

And regarding control and prevention of fraud, we will focus on:

- How the SII system makes easy the evaluation of contrast risks.
- How richer information allows the detection of other risks.
- The risk analysis infrastructure that was deployed to enhance control.

### 3 Information for taxpayers

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<sup>5</sup> Form 303 regulated in Orden EHA/3786/2008, de 29 de diciembre, por la que se aprueban el modelo 303 Impuesto sobre el Valor Añadido, Autoliquidación «BOE» núm. 314, de 30/12/2008, ref.[BOE-A-2008-20953](#), and Orden HAP/2194/2013, de 22 de noviembre, por la que se regulan los procedimientos y las condiciones generales para la presentación de determinadas autoliquidaciones y declaraciones informativas de naturaleza tributaria, «BOE» núm. 283, de 26/11/2013, [BOE-A-2013-12385](#)

Two main services are provided to taxpayers in order to make available information declared by third parties regarding their operations:

- Query of Contrast: it provides the taxpayer enrolled in SII information about all the invoices it has registered.
- Query of information provided by counterparties: it provides the enrolled SII taxpayer information about all the invoices their counterparties have registered in their registration books regarding them.

Additionally to the information declared by the taxpayer, the query of contrast provides the taxpayer with contrast information or in some cases, the status of the contrast evaluation. Particularly, for each registered operation the system will inform if its information is:

- Non contrastable.
- Not contrasted.
- Contrasted.
- Partially contrasted.
- Contrast information in process.

An operation will be non contrastable when providers or customers are not registered in the SII or when the Spanish Tax Agency is not able to determine it. In this case, fiscal information can't be provided. This happens for instance:

- When the counterparties are not enrolled in the SII.
- In the case of simplified invoices, where customer identification number is not mandatory, and therefore the customer may not be identified.

Once the contrastable nature has been verified, the system checks if the information/invoice sent by one party has also been sent by the counterparty. The resulting status options are:

- Not contrasted, when the system does not find two equal invoices in SII. The system considers that two invoices (one sent by one party and other sent by the counterparty) are equal when they have the same unique code, that is, if issuer tax code or TIN, invoice number and date of issuance coincide.

When the system has found two equal invoices in the SII, an additional process is carried out to cross check the information contained in the records sent by both parties.

- If taxable amount, VAT amount and total amount, match in both invoices, the status of these invoices will be contrasted.
- The status will be partially contrasted when the system has found two equal invoices in the SII, but one or more of the followings amounts are different:
  - o Taxable amount.
  - o VAT amount.
  - o Total amount.
- There is also a temporary status, called contrast information in process, that takes into account the time needed for the Spanish Tax Agency to evaluate the contrast status of an invoice since it receives it. It usually lasts only a few minutes.

As most companies enrolled in SII are large companies and may sell goods and services to end consumers where they may issue simplified invoices, most of the issued invoices in the system are non contrastable. On the other hand, more than half of the received invoices are contrastable.

After three years of operation, around 80% of received invoices are contrasted and almost 70% of issued invoices are contrasted, that is, they match in taxable amount, VAT and total amount with the same invoice declared by the counterpart.

#### **4 Assistance in declaration**

Since this year 2020 the Pre303 service for taxpayers enrolled in the REDEME (except large companies and VAT groups), assists them in the preparation of their VAT return (form 303). This service makes available to SII taxpayers their aggregated VAT books, made up by grouping the amounts of the books kept in the electronic office of the Tax Agency through the SII. These amounts are precisely the ones to be declared in the 303 form, so the service can prefill taxpayers' VAT returns by transferring the information from the aggregated books to the corresponding box of the VAT return. If required, taxpayers are allowed to modify them before submission (electronic submission is mandatory for SII taxpayers).

In the near future, the pre-filled return will be extended to all taxpayers enrolled in the SII.

#### **5 Control and prevention of fraud**

The rich information received in SII has allowed the Spanish Tax Agency to take a step further in control and prevention of fraud.

One of the main advantages of the system is that the percentages of received invoices (in quantity of invoices and in amount) declared by a taxpayer that are contrastable and match an issued invoice declared by their counterparty in the operation, may be considered for risk analysis. If these percentages differ substantially from the average for the rest of similar taxpayers, this difference in behaviour may be indicative of risk of non compliance, especially in the cases where most contrastable invoices cannot be contrasted.

Another important risk information is the contrast of the invoices declared by the taxpayer and by its counterparties in the SII with the taxpayer's VAT return. Taxpayers provide in SII not only rates and amounts but also other essential information regarding VAT treatment of their operations, such as exemptions for issued invoices, deductibility for received invoices and special regimes. With that information, the Spanish Tax Agency can find incoherence indicative of risk, for example, when deductions in the VAT return are higher than what could be expected considering SII information, not only for SII taxpayers but also for the rest, as SII invoicing accounts for a high percentage of total invoicing. Additionally, by prefilling VAT returns, the Spanish Tax Agency is moving the use of this information from control to assistance.

The implementation of this kind of controls has allowed the Spanish Tax Agency to speed up the analysis of tax returns without reducing controls, as information is already available about counterparties when the tax return is submitted. Furthermore, by approaching the moment for risk analysis to the moment of submission, the risk of fraud is reduced, as preventive measures can be taken in the moment risk is detected, for example by not allowing tax refunds that may be considered of risk.

But crosschecking is just one of the possibilities open by SII for risk analysis, as richer data allows for the detection of more complex risks. For example, some of the risks that can be evaluated for invoices in the received invoice register book are:

- Deducted VAT associated to personal expenses and not to business activity, taking into account the main activity of the invoice issuer. For example jewelry, tobacco, restaurants expenses can be indicative of risk except when they are consumed by certain kinds of businesses.
- Invoices issued by new VAT taxpayers.
- Invoices with no VAT tax return, that is, for which their issuer has not submitted a VAT tax return in two previous periods.

In order to evaluate all these risks, together with the SII a new risk analysis system has been developed by the Spanish Tax Agency in order to be able to make an efficient use for control purposes of the millions of records that it is receiving. This new system, called HERMES, allows risk definition, management and calculation, and has been extended from VAT risk analysis to constitute a single system for taxpayers' risk analysis for all taxes. HERMES enables the the Spanish Tax Agency to better plan its control activities and define profiles (risks groups) to allow adapting the resources to the defined profiles in order to perform the most adequate control activity in each case (preventive measures, extensive control, intensive control, etc.).

## 6 Conclusion

Three years after its deployment, SII can be considered a success, as it has simplified obligations for taxpayers and improved the capability of fraud control for the Spanish Tax Agency. Furthermore, when adapting to the system, enrolled taxpayers have reviewed and updated their VAT bookkeeping procedures and systems, simplifying their operations and improving their compliance. As an example, the time required to comply with VAT has been reduced in nine hours since 2017 thanks to the SII, as Doing Business and Paying Taxes reports 2019 and 2020 acknowledge<sup>6</sup>.

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<sup>6</sup> World Bank Group (2018), *Doing Business 2019*; World Bank Group (2019), *Doing business 2020* <https://www.doingbusiness.org>; PwC (2018), *Paying Taxes 2019*, PwC (2019), *Paying Taxes 2020* <https://www.pwc.com/payingtaxes>

