



## VAT reclaim

Don't leave money on the table

**BCD** travel

travel smart. achieve more.

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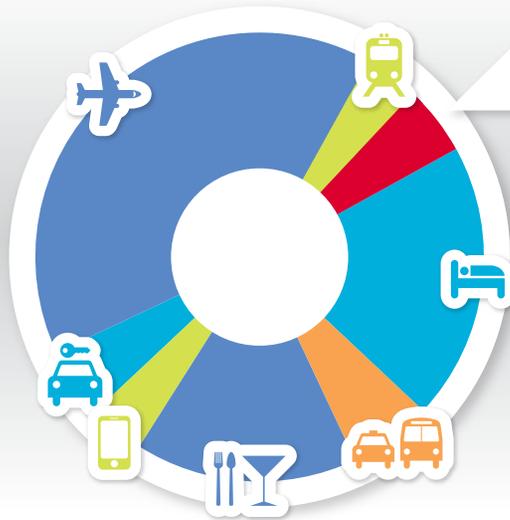


**Claudia Unger**, Director of Research & Intelligence for BCD Travel

*Claudia leads a research team charged with identifying ideas that businesses can use to improve their travel programs. They take intriguing tactics and concepts that are being used outside our industry—and some that are way out on the frontier, like behavioral economics—and explore how to make them resonate in managed travel.*



# You're leaving money on the table



Foreign VAT can account for up to **5%** of total travel spend

Most of your foreign VAT comes from these...



...and annually costs business travelers **€7.5 billion**



## Who is eligible for VAT reclaim?

Businesses registered anywhere in the world, not just the EU.



**50%**

of businesses that already reclaim recover

**50% or less**

of their foreign VAT



## Why does VAT go unclaimed?

- Lack of awareness
- Complex manual processes
- Complicated rules—varying by country
- Not VAT compliant invoices
- Language barriers



## How can you recover more VAT?

- Understand what you're losing
- Educate travelers to be VAT wise
- Avoid daily allowances
- Outsource your foreign VAT recovery
- Automate your foreign VAT recovery
- Engage with preferred suppliers



Sources: KPMG, OECD, BCD Travel

## Foreign VAT: The elusive savings opportunity

With only a few exceptions—the United States being by far the most important—almost every country in the world applies a value added tax. Often referred to simply as VAT, this tax affects a large number of services used by business travelers, from meals to hotel rooms to car rental.

Generally, businesses are entitled to recover a significant portion of the VAT—yet all too often they don't. The reasons why are varied. For one, the tax tends to be a hidden cost. Fortunately, new technology increasingly lets companies track hidden costs and influence travelers at the point of sale, as we discuss in *Hidden spend: Mining a rich new vein of savings*. While you unfortunately can't influence VAT, the good news is you can often reclaim it.

### Even if you think you're recovering VAT, you may still be letting it go

Some companies make no effort at all to recover their VAT. But even those who think they're reclaiming VAT may in reality only be recovering a small proportion of it.

There are several reasons why companies fail to recover part or all of their foreign VAT. The main culprit: a very confusing bureaucratic process. The end result is businesses are leaving large sums of money on the table. We estimate conservatively that a company which spends €5 million per year on foreign travel could easily be losing €300,000 if it fails to go after its VAT—which is exactly what happens most of the time.

### There is a solution

The good news is that—like with other hidden spend categories—managing foreign VAT is becoming easier, thanks once more to advances in technology. This paper explains not only what the challenges are but how you can solve them—maintaining your hero status with your company. It's time to pick the money up off the table.



## The big cost of VAT

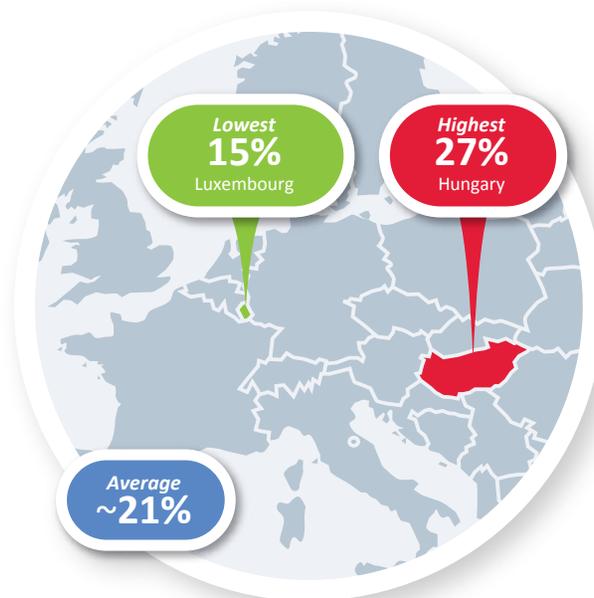
### What is VAT and which countries apply it?

Value-added tax is a consumption tax that businesses are required to tack onto the cost of most goods and services. Introduced in France in the 1950s, VAT is now applied in nearly every country and territory in the world. The main exceptions (with populations greater than one million) are:

- Hong Kong
- Kuwait
- Libya
- Oman
- Saudi Arabia
- United Arab Emirates
- United States of America<sup>1</sup>

### How expensive is VAT?

Outside the European Union (EU), standard VAT rates typically run 10-20%. Inside the EU, the average (mean) standard rate is 21%.<sup>2,3</sup> However, various member states apply reduced rates to a wide range of goods and services, including hotels, restaurant meals, transport and other travel-related categories. The average rate of reclaimable VAT for travel-related purchases across the EU is 12%.



### Highest and lowest VAT rates in the EU<sup>4</sup>

	Highest	Lowest
💰 Standard	Hungary – <b>27%</b>	Luxembourg – <b>15%</b>
🏨 Hotel accommodation	Denmark – <b>25%</b> (no reduced rate)	Belgium, Netherlands, Portugal – <b>6%</b>
🍽️ Restaurant meals	Hungary – <b>27%</b> (no reduced rate)	Luxembourg – <b>3%</b>
🚗 Domestic transport	Hungary – <b>27%</b> (no reduced rate)	Ireland – <b>exempt</b> ; UK – <b>0%</b>



<sup>1</sup> Although most states in the U.S. charge a sales tax.

<sup>2</sup> PwC

<sup>3</sup> VAT Rates European Union

<sup>4</sup> KPMG



## How does VAT affect the cost of business travel?

VAT isn't applied to cross-border services, which means it doesn't apply to international air travel. However, it is applied to many other travel costs, including:

- Hotels
- Meals
- Car rental
- Fuel
- Taxis
- Meeting venue hire
- Entertainment
- Rail

According to KPMG, VAT typically accounts for 5% of a company's foreign travel spend, but that amount can easily be higher.

## How much travel-related VAT are companies leaving on the table?

Businesses registered to charge VAT are usually entitled to recover much of the VAT other businesses charge them.<sup>5</sup> But while it's straightforward for a business to reclaim VAT in its home country, the process becomes considerably more complicated during foreign travel.

As a result, companies regularly leave enormous sums unclaimed. Each year businesses worldwide incur €7.5 billion in foreign VAT within the EU that could be recovered. Of that total, only €2 billion is reclaimed, leaving €5.5 billion (or 73%) on the table.<sup>6</sup> Put another way, the Organization for Economic Cooperation and Development (OECD) estimates that 50% of businesses recover 50% or less of their foreign VAT.

<sup>5</sup> This is a general principle but there are many variations and exceptions for different goods and services in different countries. In particular, VAT on fuel is non-recoverable in many countries.

<sup>6</sup> Figures cited by, among others, Organization for Economic Cooperation and Development

# The challenges of recovering VAT

## Why don't more companies recover more foreign VAT?

### Lack of awareness

- Many companies, especially smaller ones, don't even know they can recover VAT incurred abroad—or they have little idea how *much* VAT they've paid.
- Larger companies more typically fail to recover the full reclaim they're due. For example, they might recover foreign VAT on high-value items charged to internal departments, such as those spent at trade exhibitions. But they'll fail to go after VAT incurred by their travelers.

### Too difficult

Even companies that appreciate how much they pay in foreign VAT may balk at the challenges of trying to recover it.

Typical hurdles include:

- Highly manual processes usually require the claimant to submit paper invoices for every purchase.
- You must deal with each national VAT authority separately. Each has its own complex procedures and usually communicates only in its native language.
- The rules for deciding which VAT charges may be recovered can be quite confusing and vary from country to country. For the uninitiated, the chances of a claim being rejected are high.
- Even the rules which are common to most countries are easy to get wrong. VAT authorities reject an estimated 40% of invoices supplied by travel and entertainment vendors for non-compliance with VAT reclamation rules.
- It can take several months to obtain a refund even if the relevant forms and supporting documentation are accurate.



# The solution: How to better recover VAT

## Step 1

### Research—understand your potential to recover more VAT

#### Can you recover VAT?

- Some organizations aren't required to charge VAT, which means they are also unable to recover it. These sectors usually include financial services, insurance, government, charities and public authorities.
- Some EU countries work on a principle of reciprocity. It means they will not allow a foreign company to recover VAT if the country in which that company is based does not levy VAT or refund local VAT to non-residents.
- VAT can't be recovered on private expenses.

#### How much am I failing to recover today?

Carry out a sample audit of the expenses paid by your company that incur recoverable foreign VAT, and assess what percentage of that figure has actually been recovered. Remember to check invoices sent to company departments (e.g., for trade shows) and also the expense claims of travelers. Some expense management systems provide a report specifically for this purpose.

## Step 2

### Quick wins—improve your potential to recover VAT

#### Educate your travelers

Communicate to travelers the importance of collecting VAT-compliant invoices. In particular, they should make sure their hotel supplies an invoice including the name and address of the traveler's **company**, not the traveler's own name and private address. They must also make sure that the invoice accurately lists the VAT rate applied to each itemized charge. In some countries, different items—such as the room rate and breakfast—have VAT applied at different rates.

#### Steer clear of daily allowances

Some companies allow travelers to spend what they like within a daily cap. This practice limits your ability to recover VAT because travelers with allowances have little incentive to collect compliant invoices. Switch instead to post-trip expense claims.



## The solution: How to better recover VAT

### Step 3

#### Outsource—call in the foreign VAT recovery experts

It should be clear by now that foreign VAT recovery requires expert handling. Fortunately, there are companies which specialize in doing exactly that. They usually operate on a gainshare basis—meaning they take a cut of the money they recover for you—but their expertise and economies of scale add up to significant savings, even taking this share into account.

### Step 4

#### Automate—use new technology-based solutions

Most of the outsourced specialists use manual processes for their work. Automating the VAT reclaim results in significantly greater efficiencies and savings. For more detail, read *How we can help: maximize your VAT recovery with Taxeo* on page 10.

### Step 5

#### Think ahead—modernize and engage

##### Use an automated expense management system

In addition to many other benefits, automated expense systems often break out the VAT elements of each spend item. If you are not provided an electronic invoice, digitizing your paper copy using a mobile application will simplify VAT recovery later on. Even better, think about automating the process completely.

##### Talk to your suppliers

Get your vendors involved. Talk to them ahead of time about the importance of providing VAT-compliant invoices.



## How we can help: Maximize your VAT recovery with Taxeo

VAT recovery specialists have the expertise and economies of scale to recover foreign VAT much more effectively than even large multinational businesses. That's why we've partnered with Taxeo as our VAT recovery partner.

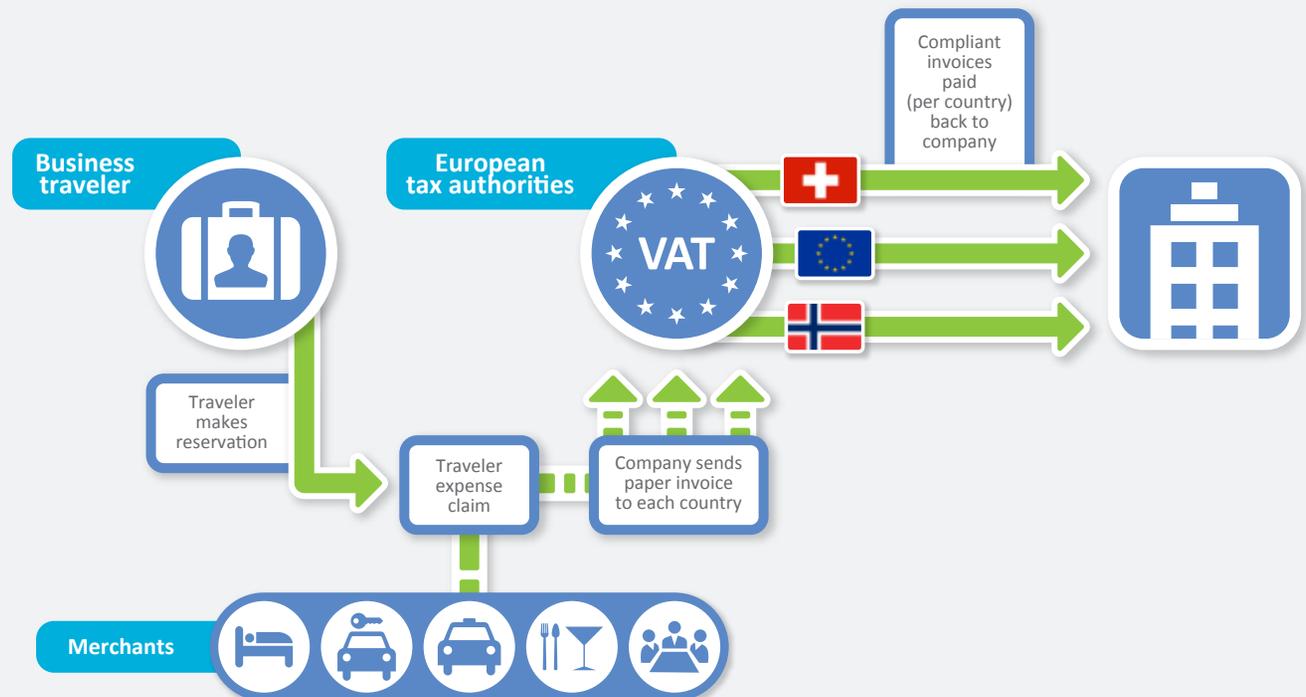
### Why we chose Taxeo—innovative automation

Taxeo lets hotels, car rental companies and other suppliers sign up for its unique paperless invoicing process. In addition to convenience, the automation ensures all your suppliers' invoices will be VAT-compliant.

### How it works—before and after

#### Before—manual paper process

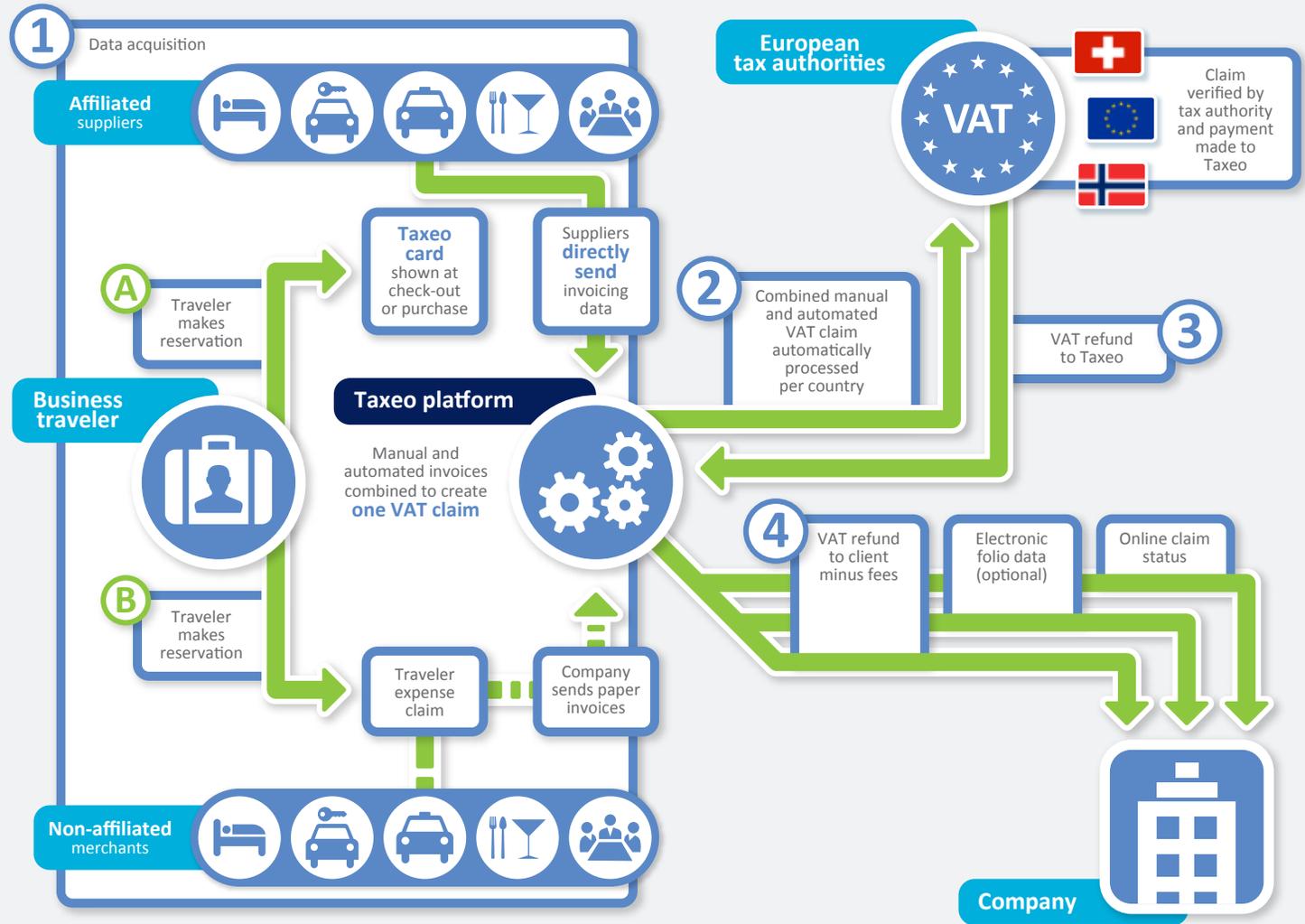
Suppliers give paper invoices to travelers. You then have to rely on the travelers submitting them as part of their expense reimbursement process. You then collect invoices from various countries and navigate the complicated task of submitting VAT recovery applications.



## How we can help: Maximize your VAT recovery with Taxeo

### After—Taxeo's automated paperless process

- There are two options to data acquisition:
  - A Affiliated suppliers automatically deliver fully itemized digital invoice data to Taxeo,
  - B Non-affiliated merchants' data is supplied through paper invoices of traveler expense claims
- Taxeo then creates a fully compliant e-invoice. Both electronic invoices and conventional paper invoices from non-affiliated suppliers are submitted to the appropriate national authorities.
- Each national taxing authority verifies the claims and pays the recoverable VAT to Taxeo.
- Taxeo forwards the recovered VAT (minus its fee) to the client as well as electronic folio data for reporting.



Designed in cooperation with Deloitte



## How we can help: Maximize your VAT recovery with Taxeo

### The benefits

Taxeo's automated process offers several advantages over conventional foreign VAT recovery:



#### Guaranteed VAT compliance

E-invoices are guaranteed to be VAT-compliant, compared to 40% non-compliance of travel-related invoices overall.



#### Faster

No need to wait for the traveler to forward a paper invoice when filing expenses.



#### Transparent reporting

For spend analysis, budgeting and cashflow analysis.



#### Folio data

Get a fully itemized breakdown of the hotel bill.



# Conclusion

## In short

- Foreign VAT recovery returns significant dollars or euros to your business. VAT accounts for about 5% of total foreign travel spend, estimates KPMG. And most businesses can recover large portions of that money.
- Even companies with VAT recovery programs leave large portions of their eligible refunds on the table as a result of non-compliant invoices or applications.
- VAT recovery no longer needs to be a blood-letting experience. Automation makes the process more efficient, faster and more accurate.

## Here are those action points again:

- **Research**—understand your potential to recover more VAT
- **Quick wins**—improve your potential to recover VAT
- **Outsource**—call in the foreign VAT experts
- **Automate**—use new technology-based solutions
- **Think ahead**—modernize and engage



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**About BCD Travel**

BCD Travel helps companies make the most of what they spend on travel. For travelers, this means keeping them safe and productive, and equipping them to make good choices on the road. For travel and procurement managers, it means advising them on how to grow the value of their travel program. For executives, we ensure that the travel program supports company objectives. In short, we help our clients travel smart and achieve more. We make this happen in 97 countries with 11,000 creative, committed and experienced people. And it's how we maintain an industry-leading client-retention rate of more than 95%, with 2012 sales of US\$21.2 billion. For more information, visit [www.bcdtravel.com](http://www.bcdtravel.com).

**About BCD Holdings N.V.**

BCD Holdings N.V is a market leader in the travel industry. The privately owned company was founded in 1975 by John Fentener van Vlissingen and consists of BCD Travel (global corporate travel management), Travix (online travel: CheapTickets, Vliegwinkel, BudgetAir, Vayama and Easytobook), Park 'N Fly (off-airport parking), Parkmobile International (mobile parking and traffic applications), Airtrade (consolidating and fulfillment) and VakantieXperts (leisure). BCD Holdings employs more than 13,000 people and operates in almost 100 countries with total sales, including US\$8.5 billion in partner sales, of US\$22.8 billion. For more information, visit [www.bcd-nv.com](http://www.bcd-nv.com).

