Blockchain @ IDSt

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1. Starting Point: Blockchain @ IDSt

Pre-considerations

- The digital transformation in all central areas of life and business - including the tax sector - is the greatest challenge of our time

- Up to now, every single company works separately on "digitalization" in tax matters

How does the IDSt wants to change that?

- Idea: Building a digital infrastructure in the tax area
  - exchange tax relevant data between companies and with the tax authorities

- Cooperation of all economic stakeholders for joint development of use cases in the tax and customs area

- Joint "best practice" transformation of tax law requirements into the digital world

- Imaginable for many technologies such as AI, blockchain, RPA …

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1. Starting Point: Blockchain @ IDSt

Analog infrastructure

Digital infrastructure
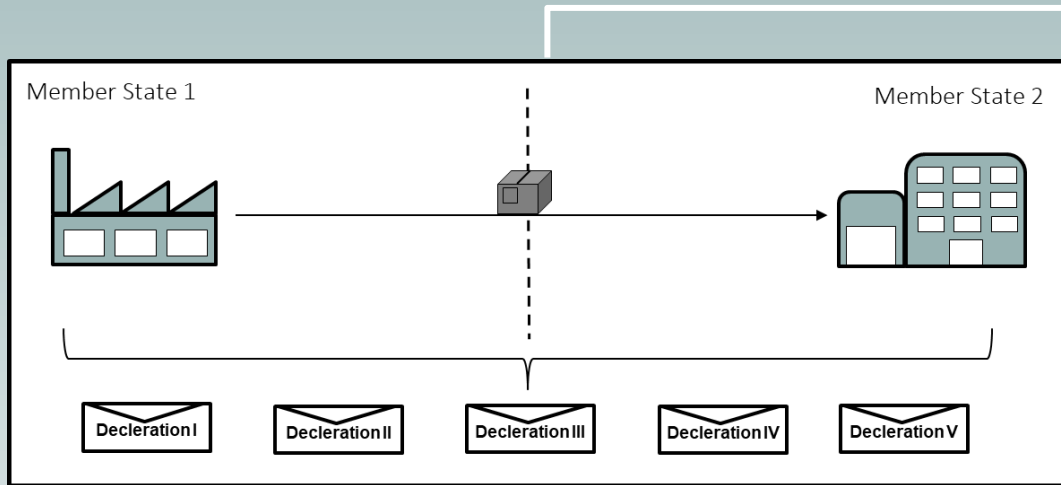
Manual and paper-based activities	Highly Fraud sensitivity

High administrative costs	Different solutions
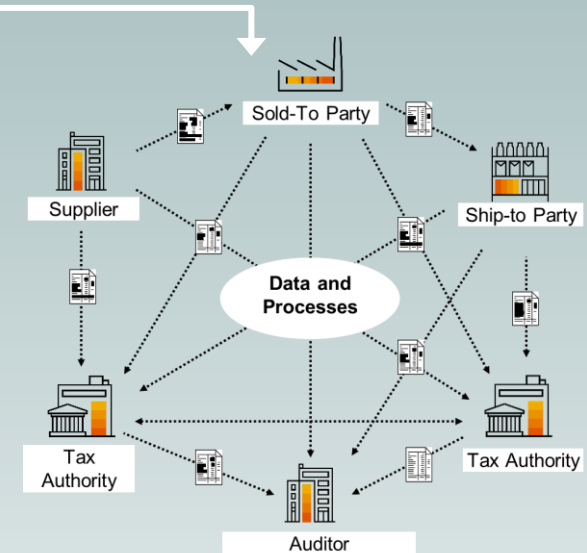
Digital Transformation	Proof of originality

Automatization of legal requirements	Fraud Prevention

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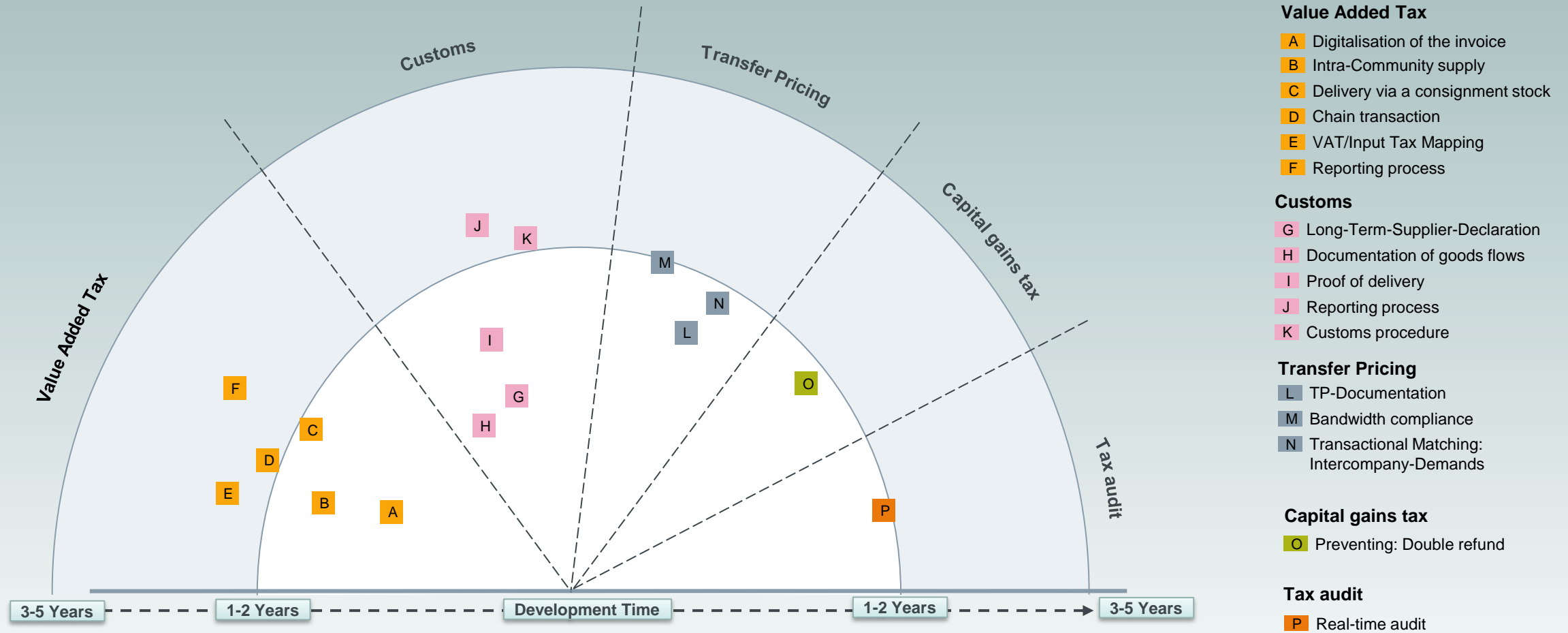# 2. Realization: Blockchain @ IDSt - taXchain

The platform

- taXchain as a Blockchain platform for tax and customs

- Goal: Digital Transformation of tax processes, stopping media disruptions with a digital tax data exchange, using technologies to automate tax processes

The development

- Cooperation of all economic stakeholders for the joint development of use cases in the tax and customs (via IDSt)

  - Blockchain technology is only used, when it makes sense

- 1. Use Case: long-term-supplier-declaration according to articles 62 and 63 UCC-IA *(cooperation of Siemens & Henkel, completed)*

- 2. Use Case: tax exemption of intra-community supplies/chain transactions ("Document Evidence") according to Art. 45a EU-VAT Regulation / § 17a-c german-VAT Regulation *(IDSt, development currently in planning)*
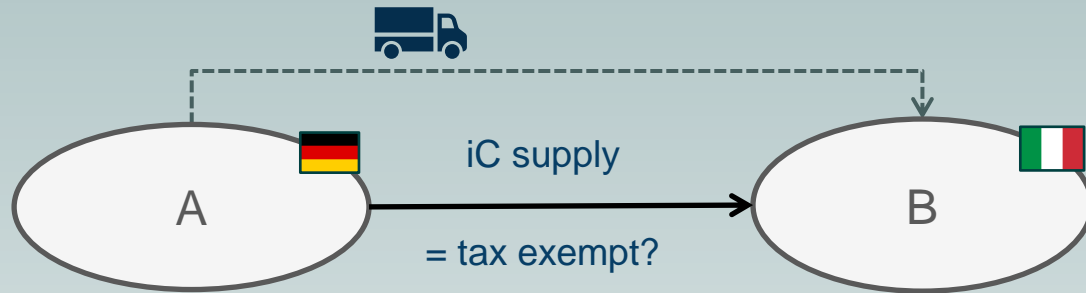
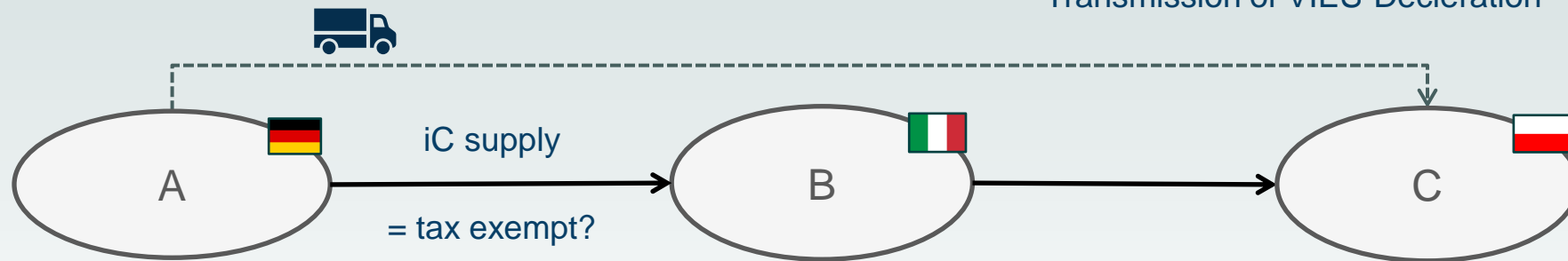**taXchain**

2. Realization: Blockchain @ IDSt - taXchain

Value Added Tax
- A Digitalisation of the invoice
- B Intra-Community supply
- C Delivery via a consignment stock
- D Chain transaction
- E VAT/Input Tax Mapping
- F Reporting process

Customs
- G Long-Term-Supplier-Declaration
- H Documentation of goods flows
- I Proof of delivery
- J Reporting process
- K Customs procedure

Transfer Pricing
- L TP-Documentation
- M Bandwidth compliance
- N Transactional Matching: Intercompany-Demands

Capital gains tax
- O Preventing: Double refund

Tax audit
- P Real-time audit

3. VAT Law: Document Evidence for tax exemption of intra-community supplies

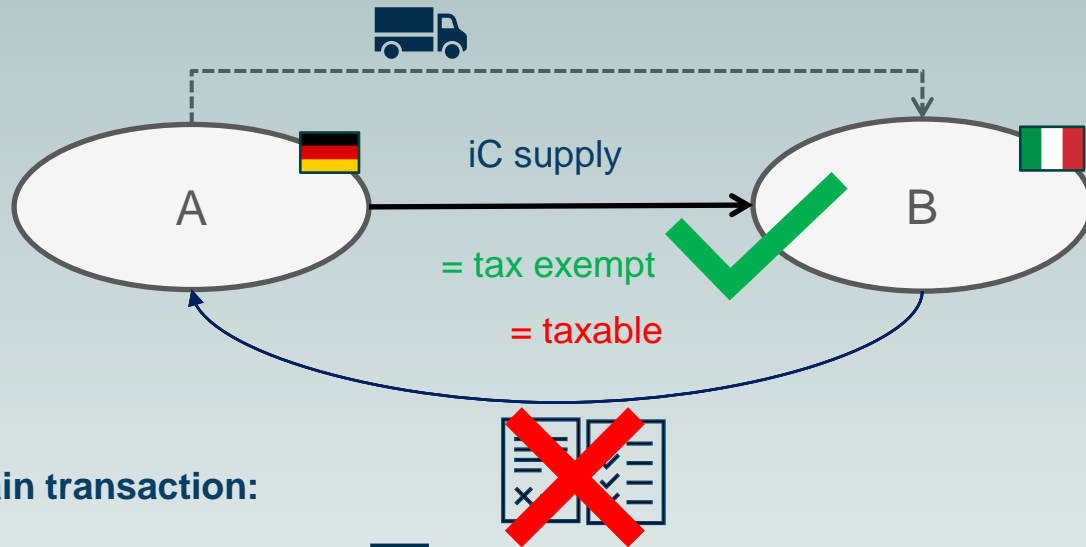**Intra-community supply**

(§§ 4 Nr. 1b, 6a german-VAT law/Art. 138, 139 EU-VAT Directive)
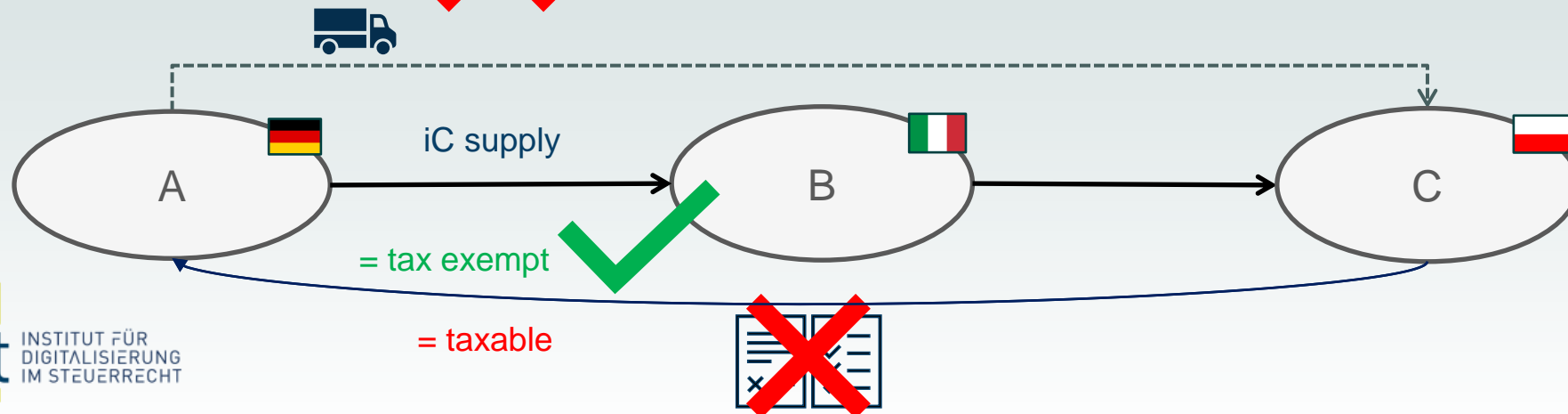
- Supply

- The goods must have been transported or dispatched from the domestic territory to another EU Member State by the supplying company or customer

- The customer must be an entrepreneur and use a valid VAT-ID from another EU Member State

- Taxable intra-community acquisition in the Member State of destination

- Tax exemption can only be claimed if accounting and **document evidence** are properly kept

- Transmission of VIES-Decleration

1. Bilateral transaction:

iC supply

A ➝ B

= tax exempt?

2. Chain transaction:

iC supply

A ➝ B ➝ C

= tax exempt?

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3. VAT Law: Document Evidence for tax exemption of intra-community supplies

Document evidence management

(§§ 6a Abs. 3 german-VAT law, 17a-17c german-VAT regulation/Art. 131 EU-VAT Directive, Art. 45a EU-VAT Regulation)

(1) Invoice duplicate(§ § 14, 14a german-VAT law)

- Reference to tax exemption of iC supply

(2) Proof of transport

- At least two non-contradictory proofs from two independent parties

- or special case in GER: confirmation of arrival

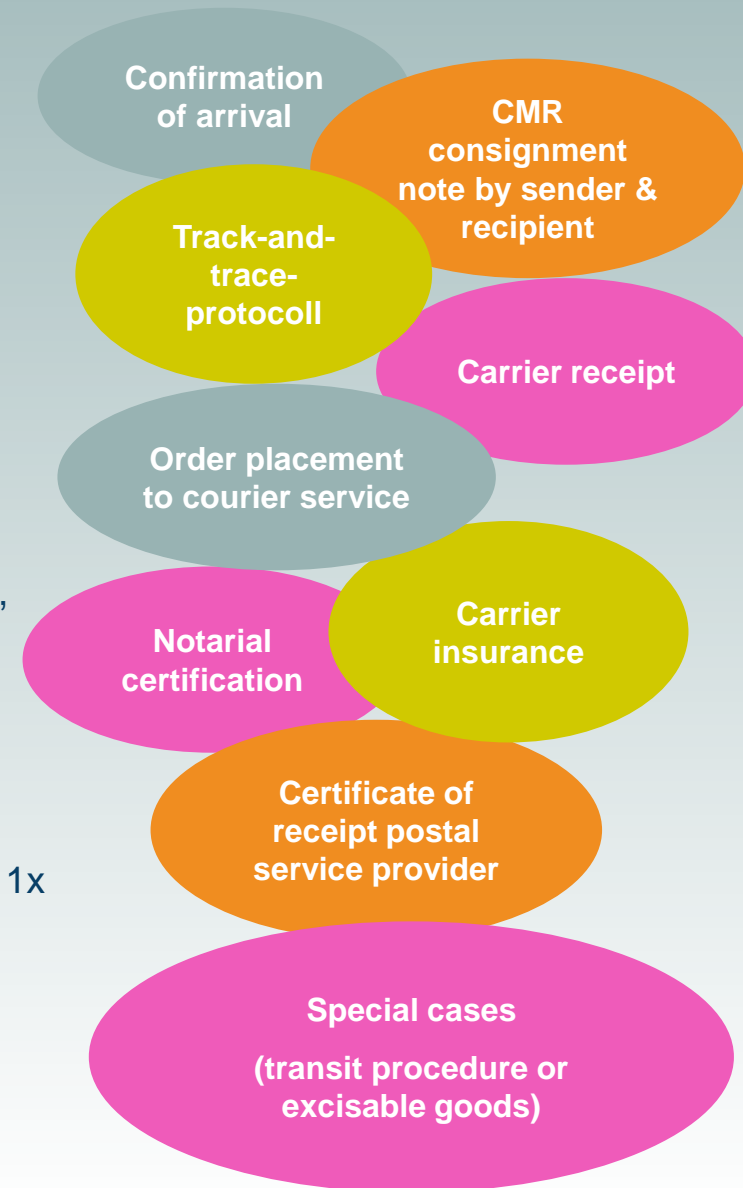- Important: monitoring the receipt of documents in the company

1. Bilateral transaction:

iC supply

A → B

= tax exempt ✔

= taxable ✘

2. Chain transaction:

iC supply

A → B → C

= tax exempt ✔

= taxable ✘

If the documents are missing or incomplete, the tax authorities can deny the tax exemption

!

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3. VAT Law: Document Evidence for tax exemption of intra-community supplies

Problems with the current document evidence management:

- Complex, manual and paper-based process

- Documents must be kept for ten years in the possession of the company required to provide proof (paper-based)

- Complexity: Each member state has a "slightly different" procedure regarding the record keeping

  - Some countries require e.g. personal names for goods recipients

  - The position of the tax authorities is unclear in most member states

  - In the member states often manual & paper-based procedures, partly with signature or stamped, only a few member states accept electronic signature, but still PDF (no automated further processing, as not machine-readable = again media disruption)

  - Not only the customer company has to confirm the receipt of the goods, but also exactly the person receiving the goods

  - Match between invoice and proof document difficult in practice (3 documents must be mapped - 1x invoice/2x documents invoice)

- In chain transaction: intermediary is at risk of disclosing confidential information about his customer

Confirmation of arrival

CMR consignment note by sender & recipient

Track-and-trace-protocoll

Carrier receipt

Order placement to courier service

Notarial certification

Carrier insurance

Certificate of receipt postal service provider

Special cases (transit procedure or excisable goods)

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3. VAT Law: Document Evidence for tax exemption of intra-community supplies

Possible consequences:

- VAT

- Interest

- Penalties

- Possible deregistration

- Loss of "special status" (CTP) in member states

- Supplier/customer relationship jeopardized in the event of discrepancies in supporting documents

- ...

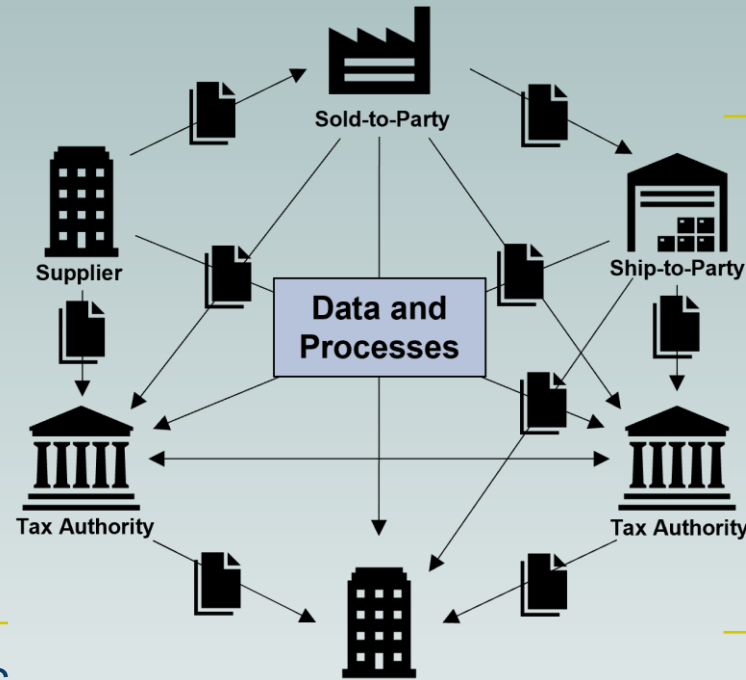# 4. IDSt Use Case for Digital Documentation evidence managmenet

Goal: Digital document evidence management

Digitalize and automate the cross-company data exchange process in the context of document tracking

Data restriction

Sharing data on a need-to-know basis to control attribute-level visibility

Sold-to-Party

Supplier

Ship-to-Party

Data and Processes

Tax Authority

Tax Authority

taXchain

Unambiguous evidence via GPS tracking

Unique proof of transport through use of GPS tracking upon arrival of goods

Authentication of tax data to ensure the identity of the information through blockchain technology

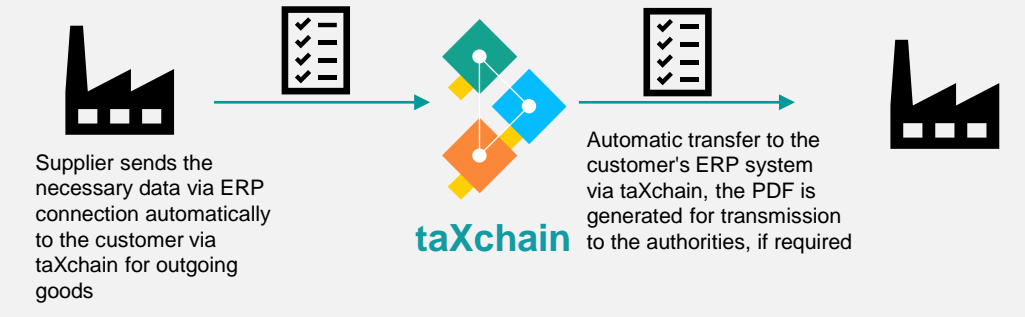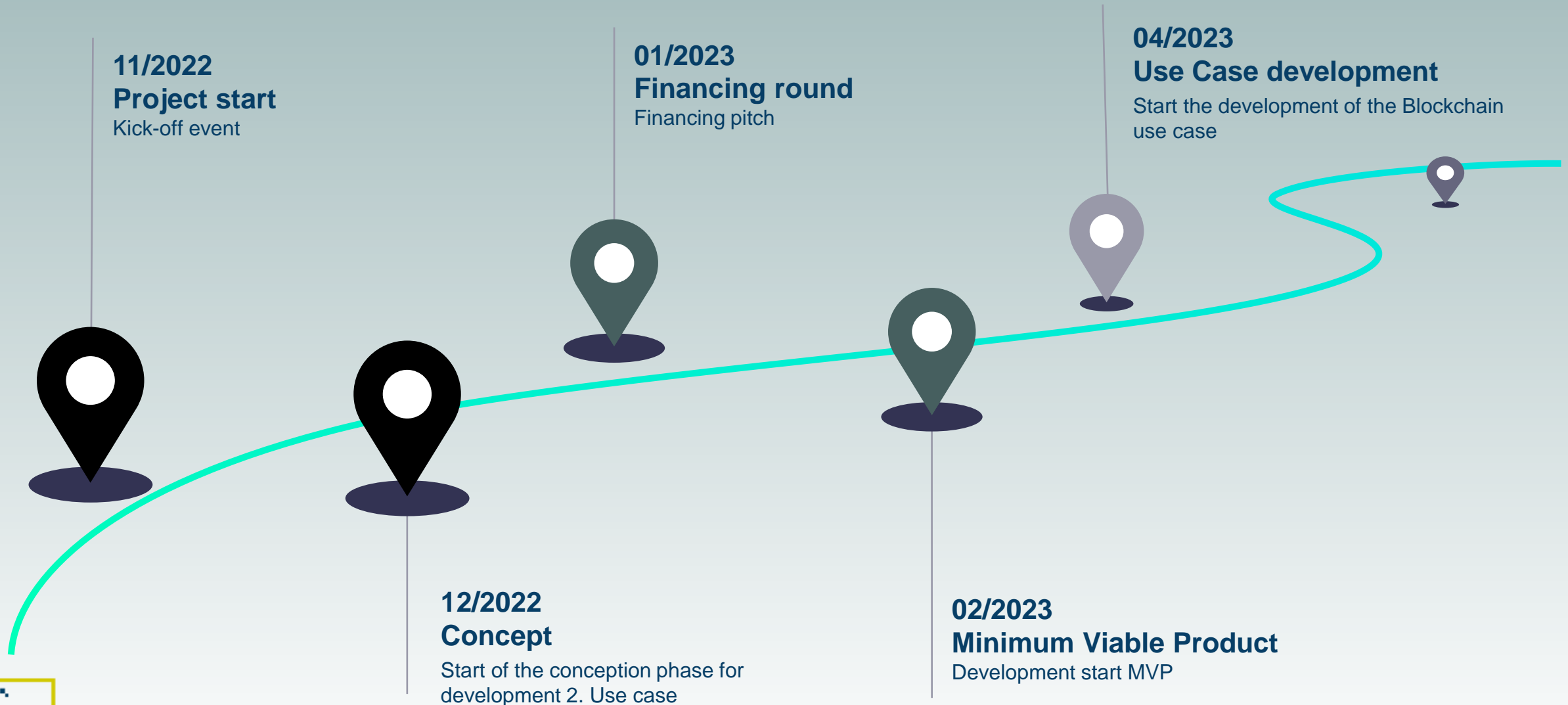## Read authorization of the tax authorities / European extension

Avoidance of denial of tax exemption by tax audit years after movement of goods.

Extension starting from GER to the other member states

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6. Possible implementation scenarios for the use case

Option 1

| Confirmation of arrival | CMR-consignment note | + | Use of GPS data from logistics/carriers |

- Classic common proof documents established in template form for the digital world

Option 2

| e-CMR | **Still under development in Germany, other countries already use it** | + | Use of GPS data from logistics/carriers |

- Use of the e-CMR → The challenge and at the same time the greatest benefit lie in creating a platform across companies and also across borders for the exchange of freight information data, which also includes the E-CMR. After all, an e-CMR is only as good as the amount of access that companies grant to all stakeholders to this data – domestic and foreign.

Option 3

| Data model | + | Use of GPS data from logistics/carriers |

- Identification of the data actually required by the tax authorities
- Tax data model

- Access to the GPS data of the carriers

Supplier sends the necessary data via ERP connection automatically to the customer via taXchain for outgoing goods

taXchain

Automatic transfer to the customer's ERP system via taXchain, the PDF is generated for transmission to the authorities, if required

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7. Project plan (2022/2023)

11/2022
Project start
Kick-off event

01/2023
Financing round
Financing pitch

04/2023
Use Case development
Start the development of the Blockchain use case

12/2022
Concept
Start of the conception phase for development 2. Use case

02/2023
Minimum Viable Product
Development start MVP

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