

SAP Concur 

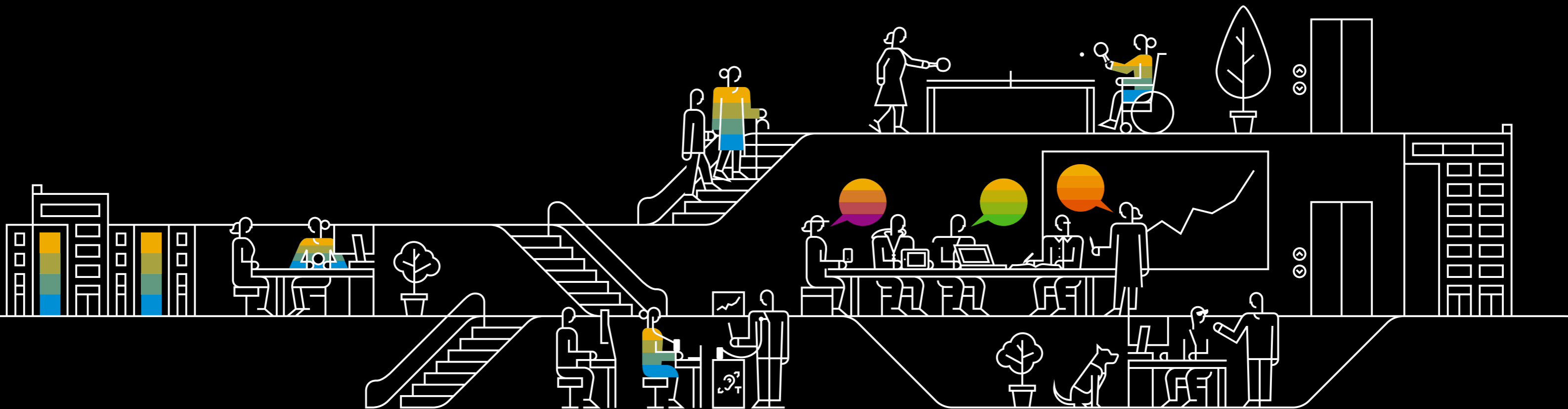
The hidden potential of VAT reclaim



THE BEST RUN



Analysing how VAT reclaim needs to change to help businesses **maximise revenue and improve their spend management.**



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Introduction

Levied by more than 160 countries, Value Added Tax (VAT) is one of the most common forms of taxation in the world. VAT is applied at every step of the manufacturing and supply chain – and collected by businesses on behalf of the government.

But in most cases business buyers are also entitled to recover VAT charged by suppliers to avoid accumulation. And this quickly adds up. It's estimated that the global market potential for VAT reclamation alone is €61.7billion (\$74.9billion).

In that case, why does 54% of eligible VAT go unclaimed by businesses? The answer is simple: complexity.

Finance teams have to contend with complicated regulations that vary from one country to the next and are almost constantly changing. Processes are often intricate and time-consuming, leaving a high margin for error.

And unfortunately, it's all too common for employees – and business leaders – to fail to recognise the potential impact of VAT reclamation on the bottom line.

On top of this already challenging mix, we of course have the disruption of the COVID-19 pandemic, which has changed how we work, trade and travel.

Remote working, for example, has diffused expense claims across the business. Where once you might have had a single invoice for 1,000 new screens, now finance teams face 1,000 individual claims, in multiple formats – all submitted outside the office.

With existing methods, finance and tax teams can find it extremely difficult to both maintain compliance and realise the maximum VAT recovery.

This is certainly a challenging situation. But it's also an opportunity for businesses to reassess their processes and consider how technologies like automation can help manage the workload, reduce risks and unlock money for the business and the bottom line.

We've surveyed 3,500 business and finance leaders in seven regions across Europe to understand the scale of the hidden potential for VAT reclaim.

This report will explore the financial challenges businesses are currently facing, common roadblocks to VAT reclamation and the potential for digitalisation and specifically artificial intelligence to unlock vital cashflow.

It can be tempting to assume that VAT reclamation is too time-consuming – and risky – to be worth the effort. But these findings suggest that VAT reclaim could have a huge impact on the bottom line and help businesses through these challenging times.

54% The amount of eligible VAT that goes unclaimed by businesses. The reason is simple: complexity.



Executive summary

The COVID-19 pandemic has had an extensive impact on businesses, with two in three leaders reporting it has had a negative effect on their organisation's financial position and security.

46% of organisations have difficulties accessing financial and business data and 41% have experienced increased errors in expense and invoice submissions and processing

Leaders' views on tax vary significantly; while 28% of business leaders consider the tax implications of all their decisions, 35% say tax strategy and planning are the sole responsibility of the financial team

Only 23% of finance leaders say that every opportunity is taken to reclaim VAT, alongside 18% of their business colleagues

In most businesses, the pandemic has caused challenges understanding the impact of changing VAT regulations on claims

A little over half of finance leaders have experienced time and resourcing issues within the finance department as a result of COVID (55%) – and 46% say claims are being processed more slowly now

In response to COVID-19, six in ten finance leaders have focused on ensuring the finance team has

an accurate and up to date knowledge of VAT regulations to help to increase cashflow

Technology is playing a key role in the business response

55% of finance leaders have digitalised the VAT reclaim process, while 56% have adopted digital tools to submit expense claims and invoices

Half of the organisations surveyed are taking advantage of artificial intelligence (AI) based tools to process expense claims and invoices

Nonetheless, there are still significant hurdles to VAT reclamation, which have a substantial impact on the bottom line

For one in four respondents, different VAT rates for items on a single expense claim and employees submitting expense claims with missing or incorrect information are the most common problems with the process

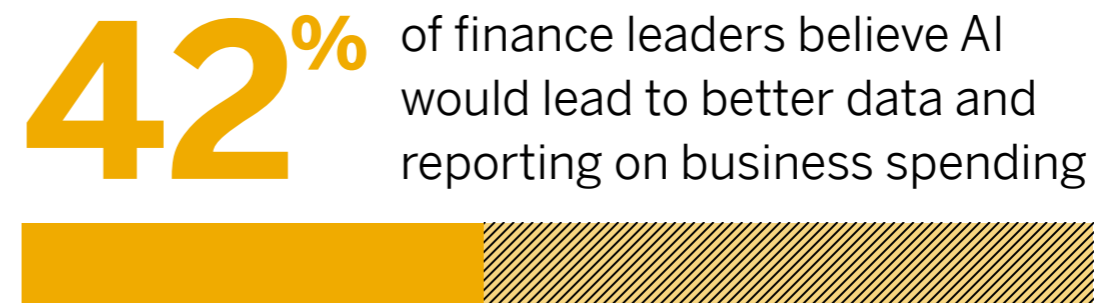
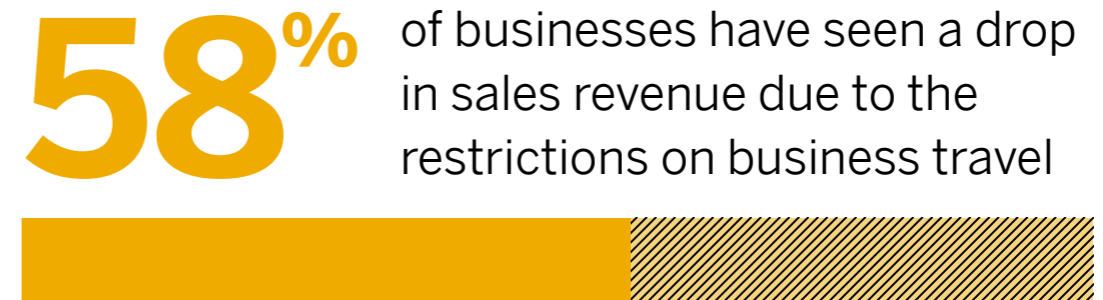
Looking ahead, leaders remain concerned about how developments will impact tax reclamation

Increasingly complex and divergent tax regulations (55%), the implications of Brexit on international trade (51%) and more frequent audits and punitive penalties for non-compliance (47%) are key worries

55% of leaders are concerned about increasing pressure on financial teams to do more with less time and resources

The potential of artificial intelligence for VAT reclamation isn't fully understood – pointing to a hidden opportunity

Likewise, just 32% of finance and business leaders would expect to reduce the risks of penalties due to errors or non-compliance with regulation



The business impact of the pandemic

Whatever your sector, whatever your business, it's almost inevitable that the pandemic will have impacted you over the last year. And unfortunately – but unsurprisingly – for most businesses, that impact has been negative.

About three in four leaders report that the COVID-19 pandemic has had a negative effect on their organisation's financial position and security (76%), with businesses faring marginally better in the Netherlands (73%) and worse in Italy (79%).

The consequences have been experienced in all the departments of the business – and a key challenge has been collaboration at all levels. Business leaders point to reduced contact and communication between senior executives (61%) and changes to company culture and collaboration (61%) as significant impacts of the pandemic.

Employee output is another area of concern. Most businesses have experienced reduced productivity and employee engagement due to home working (56%), with almost six out of ten leaders pointing to technical problems with remote working (58%).

And of course, there's the financial impact of these changes to how we work and trade. Many business leaders say they have seen a drop in sales revenue due to the restrictions on business travel and face-to-face meetings (58%).

Visibility has fallen, with 46% of leaders experiencing difficulties accessing financial and business data – at a time when that information may be critical. From a process perspective, 41% of organisations have experienced increased errors in expense and invoice submissions and processing during the pandemic.

Leaders are addressing these challenges proactively, making use of several financial initiatives. The most popular strategy is reducing costs in the business wherever appropriate (42%). Organisations are also ensuring that their tax planning and strategy is as effective as possible (27%) and incentivising greater productivity from staff (26%). While all these measures are helping businesses ensure they can run efficiently in the short term, they are not sufficient to sustain a business over time.

Clearly, businesses have had a lot to contend with in 2020. But if there is a positive, it's that both business and finance leaders are aligned in their responses, suggesting a concerted and collaborative strategy. So, while there may be plenty of other challenges to face, disunity is not one according to our research findings.



46% of leaders are experiencing difficulties accessing financial and business data



41% of organisations have experienced increased errors in expense and invoice submissions and processing during the pandemic



A wide-angle photograph of a city skyline at dusk. The sky is a mix of deep blue and orange, with scattered clouds. The city buildings are illuminated with various lights, and their reflections are visible in the water in the foreground. Several fountains are active, creating white jets of water that also reflect in the water. The overall scene is a vibrant urban landscape.

Almost half of all leaders say that VAT reclaim isn't core to their revenue and cashflow strategy and planning

Yet, VAT reclaim could provide a **significant boost** to their bottom line.

The strategic role of VAT reclaim

It's common to hear a range of perspectives about tax and compliance in the boardroom. Executives can see it as everything from a tick box exercise for the finance team, right through to a critical top-level priority.

Amongst the business leaders we surveyed, some view tax planning as a key part of their strategy. Over a quarter (28%) consider the tax implications of all their decisions – while about every third like the business to be audit-ready at all times (32%).

Other leaders prefer to be in the loop when needed; a bit more than a third simply ask to be kept up to date with the organisation's tax position and any compliance issues (36%).

But interestingly, 35% of business leaders say that tax strategy and planning are the sole responsibility of the financial team, suggesting it's common for them to lack direct involvement and oversight of this part of the business. This dichotomy is particularly stark in the UK, where almost every second business leader consider that the finance team is the sole guarantor of the company's tax strategy and planning (45%). By comparison, only one in five business leaders feel confident in their knowledge of tax regulations (20%).

This widely disparate understanding of tax planning and management is also reflected in leaders' views on VAT recovery. Unsurprisingly, finance leaders are more likely than their business colleagues to see VAT recovery as vital to boosting the business' revenues and cashflow. But even so, only 23% of finance leaders say that every opportunity is taken to claim, alongside 18% of their business colleagues.

Almost half of all leaders say that VAT reclaim isn't core to their revenue and cashflow strategy and planning (47%). And although 22% recognise the benefits that recovery could have, less than two in ten say that their approach is unlikely to change (16%).

It might be that issues with VAT reclaim processes are a blocker to leaders' ambitions. Nearly two thirds of finance leaders say that they have a good system with digital tools and technology, that is highly effective for reclaiming VAT.

Nonetheless, about every second of those with digital solutions in place feel they are not getting the most out of them (53%). German leaders are the most concerned with less than half (48%) stating that they have a good digital system in place and a little less admitting that they are not getting the most out of it (44%).

Likewise, many leaders still using manual and paper-based processes say they aren't as effective as they could be (53%). All in all, a little over half of leaders agree that their system should be better defined (53%).

There are strong hints of a hidden opportunity. It could be that improvements at an operational level would put businesses in a stronger position for realising the strategic potential of VAT recovery. But for now, many could be missing out.



Unsurprisingly, finance leaders are more likely than their business colleagues to see VAT recovery as vital to boosting the business' revenues and cashflow.

The pandemic and VAT recovery

Given the many ways that COVID-19 has disrupted business, the impact on organisations' expense and invoice management might not – at first glance – appear too dramatic.

In fact, just over half of the respondents suggest that the pandemic has not had an impact on their expense or invoice management (51%). Finance leaders are even more optimistic than business leaders (58% compared to 48%).

But the pandemic has affected the business environment in many ways – from the creation of new government relief packages through to where employees work and even what businesses do. Many of those changes have VAT implications and will impact internal processes, as finance leaders report when questioned further.

The pandemic has caused challenges understanding the impact of changing VAT regulations on claims for half of business leaders (55%). This is completely reasonable; already complex VAT rules have been further changed by the reductions, freezes and payment relief packages in place in some countries.

Equally, interpreting internal rules can be a challenge. Three in five finance leaders say the pandemic has created difficulties understanding how company regulations apply to remote work (60%). Meanwhile, the fall in business travel and the associated expenditure mean that half of organisations report a reduction in the amount of foreign VAT to reclaim (48%). This issue is even more prominent in the Nordics, where 61% of businesses reclaim VAT in more than six countries.

In some businesses, the pandemic has caused an increase in the number of smaller individual expenses to reclaim: for example, remote working equipment. And of course, in many cases expenses are now being submitted from afar by employees outside of the usual business setting.

This creates knock on challenges for the finance team. More than half of businesses have experienced time and resourcing issues within the finance department due to the pandemic (55%) – and four out of ten leaders say claims are being processed more slowly now (41%).

Cashflow is critical in this difficult business environment – and these hiccups could make it much harder for finance teams to both ensure compliance and maximise VAT recovery for the business. But fortunately, leaders are responding.

55% of business leaders admit the pandemic has caused challenges understanding the impact of changing VAT regulations on claims



Responding to COVID-19

Businesses across the board have shown incredible resilience when it comes to adapting to the pandemic – and finance departments are no exception. Finance leaders have prioritised strategies over the last year to shore up processes, maintain compliance and put the business in the strongest possible position.

Keeping up with new and changing regulations has been key. Six in ten finance leaders have focused on ensuring the finance team has an accurate and up-to-date knowledge of VAT regulations to help to increase cashflow (60%). For extra security, almost the same number has developed a system of checks and controls to ensure regulatory compliance during this period (58%).

Supporting remote expense claims has been another important piece of the puzzle. Over half have ensured that employees have access to a robust and secure reimbursement process (56%), with a further 55% developing a clear and enforced expense approvals policy and process.

To this end, technology has been a significant resource. In direct response to the pandemic, 55% of finance leaders have digitalised the VAT reclaim process, while 56% have adopted digital tools to submit expense claims and invoices.

Businesses in Italy have led the way here, with 71% implementing new tools, compared to 43% in Germany.

Notably, half of the organisations are taking advantage of artificial intelligence (AI) based tools (50%). This is a very positive step, as this technology can help to collate information on changing VAT regulations, as well as streamlining the finance team’s workflow and supporting compliance checks during busy times.

It’s interesting to see that finance leaders are more likely to report the adoption of new tools than their peers in other parts of the business. It may be that finance leaders are driving the adoption of these measures, without the direct involvement of their colleagues. But either way, it’s positive that proactive steps are being taken to protect these critical business processes.



55%

of finance leaders have digitalised the VAT reclaim process in response to the pandemic



The barriers to effectiveness

Early in the COVID-19 pandemic, speed was of the essence. Organisations of all sizes had to quickly implement new technology and systems to stay operational with a newly distant workforce. But positively, leaders report that the digital tools brought in for processing expense claims and invoices have been beneficial.

Three quarters of finance leaders (75%) and two thirds of business leaders (64%) are confident about the tools that their organisation has implemented. Similarly, 71% of finance and 64% of business leaders say this digitalisation has made the process easier.

Nonetheless, finance leaders are still experiencing barriers to effectively reclaiming VAT. For one in four, the most common hurdles reported are different VAT rates for items on a single expense claim and employees submitting expense claims with missing or incorrect information.

This reflects the inherent complexities of the VAT recovery process, where it's easy to make mistakes; our data shows that four out of ten transactions fail to meet compliance standards simply due to missing information (42%). The dispersal of the workforce has added new complications. At a quarter of organisations, remote working is causing issues with paper-based systems and documentation (24%).

These challenges with VAT reclaim can not only cause internal friction and inefficiencies, but also have a serious impact on the bottom line. In fact, 54% of eligible VAT going unclaimed by businesses.

There isn't an easy fix to these issues, especially given existing process problems. A little over half of finance leaders report that their organisation still relies on paper-based evidence for expense claims and invoices (51%). Meanwhile, a few more consider investing in tools and processes to manage VAT reclaim to be too expensive (53%).

This is understandable when times are tough. But the complexities of current VAT regulations – and the realities of remote working – mean that previous systems for VAT reclaim maybe be too labour-intensive, costly and ultimately difficult to sustain.



There are also signs that many leaders aren't familiar with the potential of more recent technologies in this area, like artificial intelligence. Just 42% of finance leaders and 36% of their business peers believe AI would lead to better data and reporting to optimise business spending and identify opportunities to save.

Likewise, only a third of finance and business leaders anticipate that using AI-powered solutions to process expense claims and invoices would increase revenues back into the business (34%) – or reduce the risks of penalties due to errors or non-compliance with regulation (32%).

In fact, all of this is possible by using tools with AI built in. The technology can collate information about VAT rules and recent changes, analyse and identify issues in individual documents and maximise the productivity of the team through a central workflow.

VAT recovery has certainly become more challenging. But technology like AI can not only address process issues, but unlock critical cashflow – that could prove vital to businesses' success during the pandemic and beyond.



Looking to the future

Over the past year, businesses have been through seismic shifts to weather the disruption of the pandemic. Unsurprisingly, further changes are planned as businesses set their course for the future. And if the focus has been working effectively while staff are distanced, going forward it will be about refining flexible working while bringing back the best of face-to-face business.

Six in ten business leaders are planning to implement new digital solutions to improve remote working (62%) and to offer more flexibility on remote working for staff (61%).

At the same time, there are plans for leaders to visit customers and partners in person to maintain relationships (55%), travel to regional offices for staff meetings and events (45%) and opening new offices and facilities in other regions (33%).

Leaders are all too conscious of the implications of this new hybrid working for expense management and VAT reclaim. For example, eight in ten business leaders have considered how giving staff the flexibility to work remotely would have an impact (79%). Likewise, only a little less have thought about how changing their expense management and VAT reclaiming process would need to align with new digital solutions to improve remote working (77%).

Business leaders are also considering how external, international factors might impact their tax recovery

and compliance for the future. International trade can add significant complexity to VAT reclaim, through the risk of double taxation, unintentional non-taxation and non-compliance penalties.

Three quarters of the businesses surveyed deal with up to ten countries for their VAT recovery (75%) – while every fourth deals with even more than ten (24%).

With that in mind, it's unsurprising that leaders are concerned about increasingly complex and divergent tax regulations (55%), the implications of Brexit on international trade (51%) and more frequent audits and punitive penalties for non-compliance (47%).

Robust expense management and VAT recovery processes will be critical for overcoming these challenges. But slightly more than half of all leaders worry about increasing pressure on financial teams to do more with less time and resources (55%) – while the impact of continued remote working is another concern (54%).

However, there is an opportunity for us to see VAT recovery as a support for – rather than a hindrance to – future plans. Maximising reclaim can unlock cashflow for other parts of the business, which leaders admit would be a powerful resource.

Business leaders say that if they could effectively reclaim the maximum VAT allowable on their business expenses, they would allocate the money to (in order of priority) new digital services for customers, digitalising financial services, employee bonuses and benefits and hiring new staff. New technologies would be the next focus for this investment, including workflow and collaboration tools, AI and automation, cloud computing and data and analytics.

Clearly, being able to unlock this cash could make a substantial difference to businesses' strategies after the pandemic. But significantly, one out of three business leaders say that they simply don't see the revenue from VAT reclaims as a source for reinvestment (35%).

If organisations can refine their expense management and VAT recovery processes, they can not only navigate new challenges but realise significant sources of funds. But in some cases, that means embracing a shift in mindset – and the hidden potential of VAT reclaim.



Realising the hidden potential of VAT reclaim

VAT recovery has always been a challenging process. But over the past year, businesses and their finance teams have had even bigger challenges to deal with.

The huge disruption caused by COVID-19, and the knock-on effect for VAT regulations, internal processes and the business environment as a whole, has created whole new complications for finance teams to contend with.

While governments have been deferring or delaying VAT collection to support businesses over the past year, going forward, it's likely that collection will be a focus. Ensuring that robust processes are in place, underpinned by accurate and consistent information, will be important for businesses to be ready for the prospect of audits.

Businesses and their finance teams have done incredibly well over the last year. Many have implemented new digital tools and initiatives to keep expense management working, even in very difficult circumstances. But there are still hiccups in many processes, from inaccurate receipts to stretched resources.

And crucially, with businesses making big plans for the future, being able to maximise VAT reclaim could be an incredibly valuable source of funds.

It's time to reconsider the hidden potential of VAT recovery – and this is where technology can help. The ability of AI to collate information on new regulations, analyse and check individual documents, streamline workflows and take care of compliance requirements can make a huge difference to the process.

With these tools, finance leaders can both meet their compliance regulations and maximise their VAT recovery. With an estimated €61.7 billion (\$74.9 billion) available to recover worldwide, refining VAT reclaim could be the difference that allows businesses to embrace a brighter future.

If business leaders could reclaim the maximum VAT they can on their business expenses, they would allocate the money to:



new digital services for customers



digitalising financial services



employee bonuses and benefits



hiring new staff

New technologies would be the next focus for this investment, including:



workflow and collaboration tools



AI and automation



cloud computing



data and analytics

It's time to reconsider the hidden potential of VAT recovery – and this is where technology can help.

Methodology

This report is based on a Censuswide survey of 3,500 business and finance managers in Denmark, Finland, France, Germany, Italy, The Netherlands, Spain, Sweden and the UK held in January 2021.





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