Understanding SAF-T and What It Entails in The Modern World of Tax and Accounting

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Organizations that have global operations are required to adhere to different tax reporting standards and regulations in each country that they operate in. Standard Audit File for Tax or SAF-T is the Organization for Economic Co-operation and Development (OECD) recommended electronic exchange of reliable accounting data from organizations' accounting system to the tax authority for compliance purpose. It aims to create a standardized file format (XML) for the exchange of audit data.

In a globalized environment, data standardization is crucial to detect tax fraud promptly and effectively. This regulation applies to global organizations or their subsidiaries with a presence in the European Union or any of the 35 member countries under OECD. Following the SAF-T regime is a mandatory requirement in most of these countries.

Typically, a SAF-T file includes Accounts Receivable & Payable, Fixed Assets, General Ledger Entries, and Inventory. This regime has been used by many European tax agencies to acquire greater control over tax data. Currently, SAF-T is mandatory in France, Poland, Spain, Norway, Lithuania, Portugal, Luxembourg, and Austria.

The SAF-T file format benefits two parties:

- The taxpayers who can easily provide their electronic records to tax auditors.
- Revenue authority staff and auditors who can review accounting records that can be used for compliance checking purposes.

Businesses can improve the quality and availability of data by using SAF-T as a file source. It allows tax administrators to conduct audits more quickly and efficiently as well as encourages tax compliance by making reporting obligations simpler and making the auditing process easier for tax authorities.

It can further be implemented by different countries specific to their tax needs. For example, countries like France and Norway have implemented SAF-T with just a subset of the data required in sync with their tax needs.

Why Banks Need a Reliable and Automated Solution to Comply with SAF-T?

The objective of SAF-T is to decipher a business' tax records to determine timely tax payments in accordance with domestic tax regulations. With increasing regulatory requirements, about 9-10 countries have already introduced a SAF-T mandate in the last two years alone. Besides, businesses that do not comply with this mandate will have to face charges for non-compliance, litigation costs, etc. In fact, complexity of tax and data security related regulations have increased multi-fold in the recent years. Implementing an automated tax compliance solution can bring down the cost of compliance significantly.

According to a study by Investopedia, the cost of non-compliance is 2.7 times higher than the average cost of compliance. If banks stay compliant to these requirements, it helps them safeguard their reputation in the eyes of the customers, thereby, avoiding the chances of a declining customer base.

Further, banking processes often have manual interventions, and it may lead to computational errors and other such inaccuracies. A proven solution can help avoid such vulnerabilities. A trusted taxation solution acts as a safety net as it offers advanced reporting capabilities and can be used to cross-check and verify with other multiple sources of truth.

Let's look at how SunTec's Indirect Taxation solution helped one of our banking clients in Europe to stay SAF-T compliant and enabled them to save costs. With Xelerate as the backbone of their billing and tax requirements, here's how the solution helped the bank:

- As an invoicing solution enabling businesses to be SAF-T compliant, Xelerate kept a track of all non-booked transactions that lay outside of the system and consolidated data across systems into one file and format (enabled data exchange between different business systems). This helped record a client's tax activity and generate bills on a daily basis for transactions of this nature.

- With its functionality to allow external data to pass through the systems for verification purposes, it deciphered multiple tax variations to be invoiced in a centralized manner.

- Additionally, in the case of incorrect computations or matters of credit adjustments, features such as charge code validation and amount validations were introduced to ensure customer's claim amounts were verified with the original invoices. This helped monitor fraud or any other errors for the company.

- The invoicing mechanism was further customized, with the inclusion of flat rate taxes and computation of taxes upon other transaction values.

- Lastly, all data was generated in an XML format based on the client's requirements to stay SAF-T compliant.

With such a standardized format and simplified procedures, the client benefited from a reduction in compliance costs, increased efficiency and effectiveness of both self-audit and external audit and improved the quality of tax declarations.

Our solution can seamlessly be implemented with existing GST/VAT systems and components required for the generation of audit reports can be re-aligned based on country specific rules. To learn more, email us at marketing@suntecgroup.com

Sources:
1Investopedia

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