

ENTERPRISE

Small Concerns Help Big Ones Get Their VAT

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Companies may find there's only one thing more aggravating than paying a 20% value-added tax in Europe: trying to get a refund.

Securing VAT refunds can be so frustrating that a small industry has emerged to handle the task for U.S. companies. For a 15% to 25% cut of the recovered taxes, these half-dozen small companies sort through the arcane forms and constantly changing rules of the process.

Since 1988, corporations have been eligible to get a VAT refund — mostly full but sometimes partial — on purchases made in the European Union. The charge, similar to the U.S. sales tax, is added to everything from hotel rooms to business meals to trade-show expenses. The rate varies from country to country, averaging about 15% in Europe.

Individuals have long been able to get VAT refunds on personal items simply by filing a form at the airport as they leave a country. The refund is then mailed to the traveler.

The process for corporations is much more difficult. But when a company is paying 17.5% VAT on a \$300 hotel room or 25% on a rental car, it's likely to try to make the effort.

Major U.S. companies have tax departments to work on the refunds, which can add up to hundreds of thousands of dollars a year. But it is too costly and time consuming.

"We tried it ourselves, but it tied up 50 people at 26 locations up to 300 hours a month," says an International Business Machines Corp. travel executive. And the labor costs "wiped out" the \$150,000 a year that IBM in the U.S. got back, he adds. So IBM hired Meridian VAT Reclaim Inc., a New York firm with 55 employees in 12 U.S. cities. Meridian is recovering \$260,000 a year in VAT for IBM, after fees of more than 15%, the IBM official says.

Previous overseas tax expertise helped VATAmerica, a Princeton, N.J., refund consultant, break into the VAT recovery business. "Our contacts with European tax experts clued us in to the potential for VAT refunds and the hoops one needed to jump

Refunds Worth Getting

Recoverable value-added tax rates in selected European countries

	HOTEL	MEALS	CAR RENTALS
Britain	17.5%	17.5%	17.5%
France	0	0	0
Germany	15.0	15.0	15.0
Netherlands	6.0	0	17.5
Sweden	12.0	25.0	25.0*

*Only 50% refundable

Source: Euro VAT Refund Inc., Los Angeles

through to get them," says Donald Aronson, senior director at VATAmerica. He and James O. Walker, who started the firm in 1993, both got their broad international experience as tax partners of accountants Ernst & Young.

Companies often turn to consultants after having survived one too many horrors: 3Com Corp., a Santa Clara, Calif., computer-network equipment maker, tried to get its VAT back from Britain, Germany and France starting in early 1992. "First, we called our accountants here, and they charged us \$600 just to find out which tax officials we should talk to in Europe," recalls Garry Carl, 3Com's international tax manager.

Then it took a month to get the right refund forms from Germany and the U.K. and eight weeks to get them from France, Mr. Carl says.

Unfortunately, 3Com attached to the French forms only its own invoices for VAT payments. Six months later, France wrote back asking for the original receipts for the VAT paid on development, advertising and marketing charges of the company's French subsidiary.

"The process was beginning to wear on our patience," Mr. Carl says.

After scouring its files, 3Com finally located a portion of the receipts and sent them, the official adds. A year later, France wrote asking 3Com for proof that it actually is a U.S. company. "We filled out

six-page forms in French giving them the details of our U.S. operations," he says.

After two full years of letters going back and forth, 3Com finally got VAT refunds totaling \$50,000 from France, Germany and the U.K.

Soon after, 3Com hired Euro VAT Refund Inc., a Los Angeles firm with six employees. It has obtained for 3Com refunds of \$130,000 to \$140,000 after fees of 15% — all within six months of filing, the Santa Clara concern says.

The consultants must master a refund process that would bewilder Rube Goldberg. To make a claim, a U.S. company must submit original receipts — not credit-card receipts or photocopies — showing VAT payments, says Mr. Walker, managing director of VATAmerica.

Companies must complete multipage forms in the language of the VAT country and cope with ground rules that can be "mind-boggling," Mr. Walker says.

For example, in Austria, a 20% VAT on car rentals is refundable, while in France, an 18.6% VAT on such rentals isn't. On the Continent, the deadline for filing for VAT is June 30 for the previous year. But in the U.K., it is Dec. 31 for the previous fiscal year ended June 30. Italy promises to refund its 19% VAT on trade-show expenditures — but forget it, Mr. Walker says. Either it will take years or "you'll never get a reply," he adds.

A slight error in the VAT refund application, such as a misspelling, can delay the refund "with letters going back and forth for several months," notes John Vecchi, sales director for Travel Tax Management International, Minneapolis, a VAT refund consultant that insists its 16 analysts speak at least one European language besides English.

On top of this, countries keep changing the rules. Britta Eriksson, president and co-owner of Euro VAT Refund, says Germany used to allow retroactive filings for VAT going back five years. But starting in June 1994, only the previous year's VAT remained refundable. Sweden cut its 21% VAT on hotel bills to 12% in July 1993. Six months later, it boosted its 21% VAT for meals to 25%.

"It's a tricky business," she says.