



Case Study: The Bank X Group

The Business

The Bank X is listed on the JSE Limited and is one of South Africa's largest financial services groups. The Group offers a complete range of banking, assurance and wealth management products and services that are primarily offered in South Africa.

Bank X is a subsidiary of Company Y, which holds a 55,52% stake in the Group. Company Y is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services in Europe, the USA, Africa and Asia.

The Problem

Bank X was not claiming back their UK VAT, but rather was writing off their International VAT as part of their UK expenses. HMRC had previously rejected Bank X's claims for UK VAT refund as they had declared Bank X and exempt organisation. VATit was appointed to assist Bank X with the recovery of their UK VAT from HM Revenue and Customs (HMRC) under the 1^{3th} Directive of the UK VAT Act

The Technical Solution

An exempt organisation is one that may not recover its VAT due to the fact that they do not make taxable supplies in the UK. Bank X was considered exempt by HMRC as they were providing financial services that were exempt under this notice. These services included:

- Interest Income
- Fee and Commission
- Insurance Premium Income
- Service fees from Investment Contracts
- Trading Income

In order to change Bank X's status from an exempt organisation, Bank X would have to provide extensive information such as:

- A list of Articles and statutes of the business
- Evidence that their activities are significantly concerned with making supplies for consideration
- Details of the services that they provide
- Details of how their business activities are funded

In addition, Bank X would have to submit a detailed application to the UK tribunal explaining why they should not be an exempt organisation. This would involve significant legal and professional tax advice, which would ultimately mean that the process of recovering UK VAT would not be cost effective.



The Solution

Since Bank X was blocked from recovering its UK VAT from HMRC under the 13th directive, VATit's technical specialists investigated all the possible alternatives. The result of this detailed investigation and research was the following:

- Since Company Y Bank (UK) had acquired a 55.52% shareholding in Bank X, Bank X was considered part of the Company Y UK VAT Group
- Bank X could therefore claim its UK VAT expenses under the Company Y local UK VAT return

With Bank X's assistance, VATit contacted Company Y to begin this joint reclaim process. VATit now performs the following functions to allow Bank X to recover their International UK VAT:

- Performs a full retrieval service on a quarterly basis
- Captures details of all invoices submitted to Company Y on their "Dragon" tracking system, thereby creating a full audit trail for Bank X
- Supplies Bank X and Company Y with a detailed schedule of the UK VAT Claim.
- Submits all supporting invoices to Company Y in order of the schedule
- Ensures through detailed follow ups with Company Y that the refund received by Company Y through its local return is passed on to Bank X

The Benefits

- Bank X has been able to recover all of its UK VAT successfully since the beginning of 2009
- Bank X can track their claims with full transparency by using VATit's "Dragon" system
- Bank X receives their UK Refunds within three months, as opposed the six months or more if they claimed their refunds via the 13th directive (providing this was possible)