Supply chain transformation: VAT as an enabler

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Supply chain transformation reshapes VAT liabilities, cash flow and compliance, requiring early tax involvement to ensure viable, efficient operating models.

Key Points

What is the issue?
Global supply chains are being redesigned for resilience and efficiency, fundamentally altering how, where and when VAT arises across borders.

What does it mean to me?
VAT is no longer a downstream compliance issue: supply chain decisions directly affect cash flow, working capital, registration exposure, irrecoverable VAT risk and the viability of new operating models.

What can I take away?
Indirect tax specialists need to be embedded early in supply chain transformation projects to map transactions, anticipate VAT consequences and ensure new models are both commercially and VAT-efficient.

Supply chain transformation – the strategic redesign of how goods are sourced, produced, moved and delivered – has become a board-level priority for multinational businesses over the past decade.

Its importance has intensified markedly in recent years. Geopolitical turbulence, the pandemic, export controls, volatile freight and energy costs, and increasing regulator intervention have fundamentally reshaped how goods are sourced, manufactured and distributed across borders. As a result, many long-established global operating models are being reassessed, fragmented or dismantled entirely.

These changes are usually driven by commercial, operational or risk-management considerations. However, they can have profound and sometimes unexpected VAT consequences.

Various factors will ultimately determine where VAT arises, when it becomes payable and whether it is recoverable, including:

- decisions about where goods are produced;
- where inventory is held;
- how goods are transported;
- who bears risk at each stage; and
- when legal ownership transfers.

For both in-house indrect tax specialists and tax advisers alike, supply chain redesign is therefore no longer a peripheral or niche issue. VAT considerations sit at the heart of supply chain viability, affecting working capital, compliance risk, effective landed cost and the overall sustainability of new operating models. Advisers who are not involved early risk being asked to solve VAT problems only after key commercial decisions have been made, when options to mitigate risk or cost are already limited.

This article explores how multinational supply chains are evolving, why these changes matter from a VAT perspective, and the practical issues that in-house tax

teams and tax advisers must consider when supporting clients through supply chain transformation projects.

How global supply chains are changing

Diversification and regional hubs

Rather than concentrating production in a single location, many multinational enterprises (MNEs) are now spreading risk across multiple sourcing and manufacturing jurisdictions through a range of models:

- near-shoring: moving production or sourcing closer to the end market;
- friend-shoring: sourcing from countries that are politically, economically or strategically aligned with the home country; and
- dual-sourcing: using two suppliers for the same product or component, often in different countries or regions.

This often results in the creation of regional manufacturing and distribution hubs designed to serve defined geographic markets. For example, Mexico has become increasingly important for North American supply chains, while Turkey, eastern Europe and parts of North Africa play a similar role for EU-focused businesses. This may shorten lead times and reduce geopolitical exposure, but it also introduces additional cross-border movements of goods and more complex VAT footprints.

From a VAT perspective, the increased number of cross-border flows can multiply the number of tax points, registrations and reporting obligations. Advisers supporting clients through these changes need to understand the detailed mechanics of how goods move through the redesigned network.

Governments and industry are also actively encouraging the development of regional manufacturing clusters – in sectors such as semiconductors, batteries, pharmaceuticals and critical raw materials – supported by subsidies, tax incentives and targeted investment. From a VAT perspective, these developments affect not only import and export flows but also the location of taxable supplies within regional blocs such as the EU.

Businesses must be alert to how these shifts can convert what were previously third-country movements into intra-regional supplies with different VAT treatments and

compliance obligations.

Inventory strategies, resilience and logistics redesign

Companies are also reassessing the trade-off between inventory costs and resilience. Many are holding higher levels of buffer stock and keeping their goods closer to end markets. This may involve the use of additional near-market distribution centres, which increases supply chain complexity. In some cases, this can also give rise to cross-docking models (where goods pass through a warehouse or distribution centre without being stored) or triangular flows of goods between suppliers, hubs and customers.

These developments can materially affect the place of taxation for new transaction flows, raising questions about inventory ownership, place of supply and VAT registration obligations. Where goods are stored locally, a VAT registration may be required even where sales contracts are concluded elsewhere. Advisers must also consider how internal transfers of inventory are documented, valued and reported for VAT purposes, particularly where goods move between group companies.

Digitalisation, automation and customs procedures

Digitalisation and automation are now central to modern supply chains. Real-time visibility, digital-first logistics and integrated tax automation, such as e-invoicing, increasingly underpin supply chain operations. At the same time, tax authorities are also digitising, requiring businesses to model and understand VAT flows earlier and in much greater detail from day one.

Alongside this, there is an increased use of customs and special trade procedures, such as bonded warehouses, inward and outward processing, free zones and customs suspension regimes. These can allow firms to defer or avoid import duties and, in many cases, import VAT until goods are released to local markets. These tools are being revisited as global businesses seek to keep goods moving without triggering multiple tax points and places of supply.

Why VAT matters in supply chain transformation

Most supply chain decisions are commercially or operationally driven, but the tax consequences are rarely incidental. While there may be opportunities to protect and create value from a VAT perspective, there are also material risks that need to be carefully managed.

VAT cash flows and irrecoverable VAT risk

Changes to cross-border fulfilment models – including the introduction of processes for returned or recycled goods flows – often require businesses to restructure the group companies involved and when legal ownership of goods is transferred between them.

As a result, these changes can alter the point at which import VAT, EU acquisition VAT and domestic VAT become payable, with a direct impact on cash flow, working capital and margins. For example, where goods are imported into a regional distribution hub rather than directly into local markets, this can impact when VAT becomes payable, and in some cases may bring VAT liabilities forward earlier than anticipated.

Similarly, shifting from a centralised European warehouse model to multiple regional hubs can result in irrecoverable VAT on intra-group transfers if documentation or local VAT registration requirements are overlooked, eroding the anticipated cost savings of the new operating model.

VAT cash flow implications can also arise where non-established entities make domestic supplies of goods and are subject to local VAT accounting rules, such as domestic reverse charge mechanisms. In some cases, these rules can delay the recovery of domestic input VAT incurred on locally manufactured goods through overseas VAT refund mechanisms, with a direct impact on working capital.

Compliance complexity and registration exposure

Multi-jurisdictional movement of goods and new fulfilment models – including drop shipments, third-party fulfilment and marketplace platforms – can create unexpected VAT registration and compliance obligations. Increasingly, these obligations are accompanied by digital real-time reporting and e-invoicing requirements.

Transitioning to multiple distribution hubs under a central inventory ownership model is likely to trigger multiple VAT registrations for a single legal entity. Failure to register and comply with local VAT rules in jurisdictions where goods are stored or sold can result in penalties, and irrecoverable VAT costs for both suppliers and customers.

Systems and data challenges

Enterprise resource planning (ERP) and billing systems must be capable of meeting new VAT accounting, reporting and invoicing requirements. Managing multiple VAT registrations for one legal entity across different jurisdictions continues to pose challenges from an IT perspective, particularly where systems were not designed with such complexity in mind. Businesses should ensure that their processes are robust enough to capture and retain all necessary data.

System limitations remain one of the most common causes of delays to new supply chain models, deferring anticipated benefits and savings. Indirect tax professionals are therefore critical participants in transformation programmes, helping to translate operational decisions into system requirements, and ensuring that VAT obligations are addressed at the design stage rather than retrofitted later.

Practical VAT considerations

The VAT consequences of new goods and transaction flows are not always obvious. Here are some of the key considerations that can support successful implementation.

Mapping transactions and ownership transfers

The early mapping of new supply chain flows is critical to identifying their VAT consequences. Advisers should seek to fully understand the VAT treatment of new physical and transactional flows, including the resulting VAT registrations, compliance, reporting and invoicing requirements. This typically requires close collaboration with corporate tax, transfer pricing and legal teams, as well as supply chain, logistics and sales functions.

A clear understanding of the flow of goods, the point at which legal ownership transfers, the applicable International Commercial Terms (Incoterms) and transport

arrangements is essential. Changes to Incoterms – for example, a move to delivered duty paid (DDP) – can shift VAT liabilities to the seller. Similarly, relocating manufacturing from a third country to the EU can create new intra-EU supplies with different VAT implications.

Timely, country-by-country transaction mapping can also identify potential VAT leakage and cash-flow implications at an early stage, allowing businesses to explore mitigation strategies, such as:

- call-off stock, which can allow goods to be held in a customer's country before sale without triggering an immediate VAT registration, subject to strict conditions;
- EU triangulation simplifications, which may allow an intermediary in a three-party cross-border supply chain to avoid VAT registration in the customer's member state;
- VAT grouping, where available, so that supplies between closely related entities are disregarded for VAT purposes; or
- export-related exemptions, provided the relevant export conditions and evidential requirements are met.

Import VAT and customs procedures

New cross-border flows may require new or revised customs procedures. While the use of bonded warehouses and duty suspension regimes can significantly improve cash flow by deferring import VAT and customs duties, they also bring increased compliance and data requirements. These regimes are not quick fixes and require careful planning and system integration.

Many countries also offer import VAT deferral mechanisms. In the UK, Postponed Import VAT Accounting allows import VAT to be declared on VAT returns rather than paid upfront. While such regimes can result in a broadly neutral net cash impact, enhancing cash flow and working capital, they are often subject to conditions – including bank guarantees and robust IT and data systems – which advisers need to assess early.

Digital VAT obligations and e-invoicing

Mandatory e-invoicing, real-time reporting and, in some countries, the pre-clearance of VAT invoices are expanding rapidly across jurisdictions. These requirements demand integrated data flows between ERP systems and local tax authority platforms, and often require a fundamental review of data quality, audit trails and document retention processes. Failure to comply can result in denied VAT recovery and significant penalties. Early engagement with IT teams, together with the piloting of digital compliance processes, is therefore an essential component of supply chain transformation.

Marketplaces, platforms and fulfilment providers

The use of online marketplaces and fulfilment networks introduces significant VAT complexity. Increasingly, platforms are deemed to be the supplier for VAT purposes on B2C sales, shifting responsibility for VAT collection and remittance from the seller to the platform itself.

Where platforms collect and remit VAT – such as under the EU's One Stop Shop (OSS) or Import One Stop Shop (IOSS) regimes – it is essential to align commercial contracts, invoicing and evidential requirements to prevent double reporting or missed VAT flows. Businesses must assess whether to register for OSS or IOSS themselves, or to rely on platform-operated schemes, as this affects VAT cash flow, compliance obligations and the overall VAT footprint.

These rules are no longer confined to B2C or pure e-commerce models. Traditional B2B sectors are diversifying their routes to market and must now consider the VAT implications of using marketplaces, platforms and third-party fulfilment providers.

The cost of registrations

Each new registration creates recurring compliance, audit and local representation costs. Before adding a distribution centre or multi-country logistics hub, businesses should model the annual compliance cost and the day-one VAT cash-flow impacts, including import VAT, bond requirements and deferred import VAT systems. Many groups underestimate how compliance overheads can erode the benefits expected from a new supply chain model.

Other indirect taxes

While this article focuses primarily on VAT, customs duties and other indirect taxes are also highly relevant to supply chain transformation. These include environmental taxes, such as the carbon border adjustment mechanism (CBAM), plastic packaging taxes and waste taxes. In a rapidly changing tariffs landscape, customs duties can materially influence sourcing, manufacturing and distribution decisions.

The data required for these taxes is often closely interlinked, particularly as businesses move towards integrated digital compliance and reporting systems. Tax and supply chain teams should adopt a holistic approach to data capture and process design to avoid compliance gaps and unlock efficiencies.

In conclusion

Supply chain transformation will remain a board-level priority. VAT should not be an afterthought but a business driver affecting cash flow, working capital, landed cost, compliance footprint and the viability of network options. Transformation programmes must be cross-functional, with tax embedded from the outset rather than consulted after design. Early involvement allows tax teams to translate commercial options into quantifiable VAT cash flows, compliance obligations and operational requirements, helping to implement resilient, compliant and cost-effective supply chains.

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