WHITE PAPER

E-Invoicing and Real-Time Tax Reporting:
Core Business Requirements You Can't Ignore

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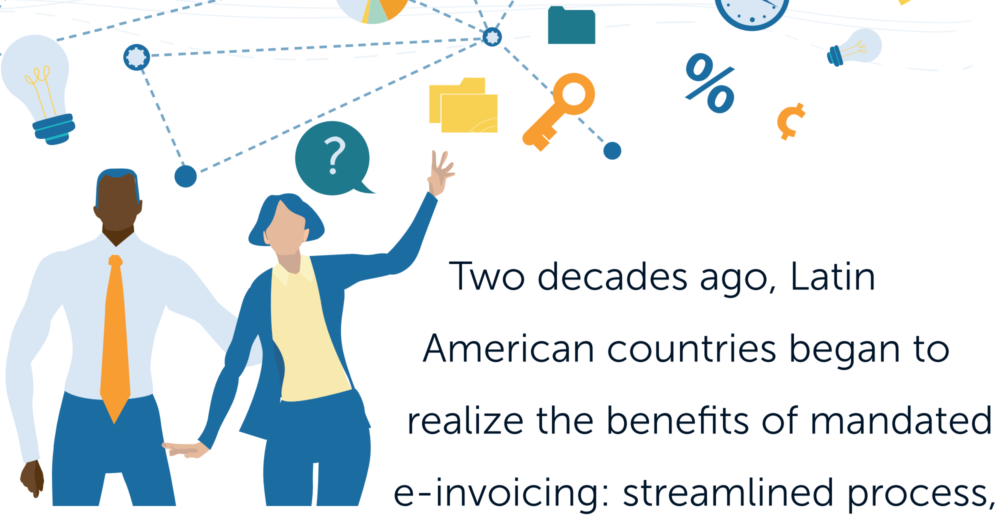

Two decades ago, Latin American countries began to realize the benefits of mandated e-invoicing: streamlined process, a reduced administrative burden for companies, and a more productive and accurate sales tax collection framework. This trend has caught on. **There has been an exponential increase in the number of countries implementing e-invoicing as an integral tool of embedding continuous transaction control.**

Continuous Transaction Control is a control process used by tax administrations to improve indirect tax management by collecting and validating transactional invoice data in real, or near-real time, instead of (or in addition to) collecting summary data periodically.

As government spending soared globally in 2020, tax authorities have been charged with finding new ways to ensure they are capturing tax revenue without excessive burden on the public. **This has brought indirect tax revenue into the real-time spotlight.**

By mandating e-invoicing and real-time, or 'live reporting' of invoice data and tax reporting, tax authorities clamp down on fraud and can now collect more VAT Revenue, without raising taxes.

These mandates show no sign of slowing down. But as more and more regulations come into force every year, some companies find themselves unprepared. They are struggling to keep up with compliance demands, or they are finding it difficult to manage a myriad of local solutions they have put in place.

Take Italy for example:
Italy's e-Invoicing Mandate Journey

- In 2019, Italy mandated domestic invoices must be electronic.
- Invoices cannot be sent directly to the buyer but must first be sent to the government (SdI platform), and the government distributes these invoices to the buyer. This gives the government full and early visibility of VAT payments.
- In 2019, they collected €4B more VAT.
- In 2022, the scope extended to include cross-border transactions.

Here are just some of the changes to expect in 2024:

- Spain: Mandatory e-invoicing will also be introduced in a phased approach complementing the existing SII reporting platform
- Poland: The KSEF e-invoicing platform will be used by all Polish businesses to exchange e-invoices.
- Belgium: Confirming plans for e-invoicing and near-live e-reporting probably using the Peppol network
- EU: "VAT in the Digital Age" (ViDA) will make e-invoicing the default in the EU in 2028. It proposes to introduce mandatory e-invoicing and live reporting for B2B intra-EU supplies of goods and services. It also reduces the issuance deadline from 45 days to 2 days.
- France has delayed the mandate scheduled for 2024, but intends to mandate B2B e-invoicing and introduce digital reporting requirements soon.

While some of these proposals are currently incomplete regarding detail and scope, and the timelines are often subject to change, the trend is firmly in place.

If you are investing into improving your finance processes operation, it is essential to take these major changes into account. Many finance, tax and IT teams are already overwhelmed with requests to meet the changing requirements. It's time to get ahead of these changes.

To comply with all these requirements, companies need to be able to send invoices as an electronic data file (with structured data). Standard PDF invoices are unstructured and are not compliant. Companies will also need to ensure the solution they opt for has a global and agile design to ensure scalability as mandates and country requirements change.

E-invoicing, live reporting and real-time reporting requirements are becoming core-business requirements. They are strategic considerations that have direct impact on your ability to move into new markets. They must be factored in when planning growth.

Why is e-invoicing and real-time reporting compliance proving to be such a challenge for businesses?

Here is an overview of the complexities of real-time, live reporting and e-invoicing.

E-invoicing and tax data reporting look quite different country to country. There are many variations. No two countries have the same set of requirements.

- Some countries use an **interoperability model.** This model allows any organization to send and receive e-invoices via an open exchange network built on certified service providers (for example, Peppol).
- Other countries use a **clearance model.** Businesses must submit invoices to the tax authorities electronically first, so they can effectively audit, validate, and approve the invoice before being sent to the customer.
- Some tax authorities go a step further and implement a centralized version of the clearance model, where the tax authority actually send the e-invoice to the customer.
- Some countries use **Standard Audit File for Tax (SAF-T)** where accounting data and transactional data need to be sent to the tax authorities in a predefined XML format. Depending on the country, this might be in real-time, or on-demand.
- **VAT returns are increasingly automated.** Many countries are moving towards pre-completed VAT reports based on data collected from live transactions reporting and e-invoicing.
- Storage and archiving requirements: beyond just sending or receiving invoices, there is a myriad of requirements for digital **signatures and tax compliant archiving** that vary country to country.

Real-time reporting is increasingly required.

With real-time reporting, or live reporting, companies must transfer transactional data of invoices to the tax authorities immediately. **As tax reporting moves from periodical to real-time, there is no longer time between tax calculation and tax reporting that would allow checking for and correcting any errors.** This means tax calculation needs to be correct from the beginning.

ERPs are not designed with tax in mind.

While ERPs are often impressive operational and financial engines that power an organization globally, they are generally not designed with indirect tax in mind.

Even latest versions are not really equipped to handle the complex VAT flows of large organizations. While the VAT landscape has changed dramatically in the last 30 years, tax functionality within most ERPs has not kept up. **The standard tax functionality in the most popular ERPs is generally not sufficient to accurately determine and report indirect tax.**

As a result, many companies invest significantly in customizing their ERP for enhanced VAT functionality and to meet new e-invoicing requirements.

Change is the only constant.

E-invoicing mandates rarely remain static and formats, standards, and the data to be submitted are subject to change and evolution. Also, many of the initiatives are rolled out in stages. What often follows is “tweaks,” which may range from minor to major changes. There can be schematic changes, or tax authorities may start requiring additional document types, including logistics documents or purchase orders. **Compliance requires vigilance. You can’t ‘set it and forget it.’**

What do these changes mean for the wider organization outside of tax?

With real-time reporting on the rise, correct VAT determination at the source is more important than ever. This means there must be more tax awareness and further controls in the wider business' processes.

While increased tax-awareness and training for finance and procurement teams are beneficial, **you cannot expect everyone to be a global tax expert given the complexity of the requirements**. Easy-to-use software with built-in tax and data controls and automated controls is the ideal solution for a complex, global organization.

Tax teams should be consulted about new major technology solutions.

It is important to extend the initial conversations about tech solutions beyond the key users and IT. In an ideal set-up, communication about any major developments happens early, concerns are flagged as they arise, and solutions are embedded across the end-to-end indirect tax process. Tax needs to be at the table.

There are some good opportunities here.

In meeting these new requirements, additional financial investment and effort is required. However, the gains will reach beyond just ticking compliance boxes. **Investment now will lead to wider strategic benefits**. Investments into e-invoicing and higher quality, compliant processes will help you:

- **Improve the quality and reliability of data.** Efforts to clean and implement controls to retain the quality of data will help the speed and efficiency of your wider finance and procurement processes.
- **Reduce costs and improve productivity.** E-invoicing solutions and connections to portals may be required to meet the standards, but they are also a cornerstone for world-class finance operations in their quests for best practice processes.
- **Improve scalability.** Electronic invoice processing enables your company to grow at a faster scale.

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The Two Approaches to Compliance

If you operate in any country where these new rules are in force, or coming into force, some business changes will be required. There are two main ways to meet these changes:

1. **Addressing country-specific requirements tactically with local tax compliance specialists**
2. **Taking a global, strategic approach**

1 A local, country-specific approach

Pros:

- Less investment up-front, cost only for what you need right now.
- Targeted solutions geared to meeting country-specific requirements.
- May be a cost-effective solution if only operating in 1-2 countries.

Cons:

- Different system integrations required for each country, individual procurement negotiations for each country which can slow the overall process.
- If working in multiple countries, will likely be a higher overall investment due to complicated processes and maintenance. The cost per transaction may be smaller, but the cost of ownership is likely higher.
- Requires high levels of coordination between local business units and local solution providers
- If centrally managed, may be difficult to keep up with changes, i.e. documentation in multiple languages.
- Less visibility of where your data is if it sits with multiple 3rd parties in different locations.
- Reactionary approach to incoming changes and trends.
- Does not bring in organization-wide changes and benefits.
- Does not support you expanding into new countries.
- Could lead to siloing of knowledge of software and processes.

2 Global approach with a strategic single partner

Pros:

- One integration with a single solution
- One contract and service level agreement covering all countries
- Can give you enhanced visibility of your data across jurisdictions
- A proactive approach to incoming changes and trends
- Scalable and flexible, allows you to easily expand to new markets with e-invoicing mandates
- Puts the burden on your provider to ensure systems and integrations are up-to-date
- Efficiency through usage of one global e-invoicing instead of parallel management of multiple solutions

Cons

- May be higher up-front investment than local solutions
- May be unnecessary if operating in only one or two countries and not planning expansion abroad

If you operate in one country or a small number of countries, using local solutions may be an effective solution for your organization.

Global companies are benefiting from using a global, strategic approach to bring in controls, in a preventative and automated way, that improves the quality of processes throughout the organization.

This is a Core Business Issue

With new compliance rules coming into force every year, we are seeing e-invoicing mandates and real-time tax reporting requirements move up the corporate priority list.

Errors in these processes lead to more than just fines. Mistakes can also lead to supply chain disruptions, inhibited cash flow and damaged relationships with suppliers and customers. More than that, non-compliance will attract the attention of tax authorities that need to conduct in-depth audits to assure they collect tax revenues as expected.

Beyond just the legal requirements, getting indirect tax right and embedding good quality controls at the intersection of sales, procurement and finance has benefits for the whole organization.

This needs C-suite attention.
When teams neglect detailed information in finance, sales or procurement that affects indirect tax, it can have a negative impact on the organization in the form of unnecessary tax costs or even reputational damage.

When indirect tax considerations aren't incorporated into processes early on, it leads to pain points downstream, beyond fines and audits. **Getting all tax-related tasks correct early in the process will not only help you avoid fines and break-downs in business processes, it can help your company remain more agile and launch into new markets, and remain competitive.**

Build the Business Case:

If you are still trying to get the CFO and the wider business to pay attention to this issue, here are some tips to help build your business case:

- **Make an effort to 'speak the language' of the wider business.** While you may be most concerned with immediate tax reporting requirements, take a step back and consider how an investment now will not only reduce risk and cost, but make your business better and help future-proof your business processes.
- **Document the costs and be sure to include the hidden costs.** The CFO will be aware of many of the costs associated with indirect tax management including salaries, IT development hours and technology spend. However, there can be a surprising amount of hidden cost, including:
  - The time and cost of processes which are slowed down or require manual intervention when tax-relevant information needs correcting.
  - The hours of development put into customizing and updating your ERP to help with complex VAT flows.
  - Time invested in change management, including researching the changes, training relevant teams on the changes, as well as making necessary amends and updates to technology and processes.
  - Cost of non-compliance including penalties, interest, assessments, disclosures and professional services.

The right global third-party partners can help you manage e-invoicing and reporting compliance in all the countries in which you operate, while also being responsible for updates whenever the rules change.

These changes are here — and more are coming. Senior leadership needs to focus on bringing in preventative and automated controls to improve the quality of finance and tax processes. This will not only help ensure compliance, but will also bring in organization-wide benefits.

About Avalara

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, e-commerce, and other financial management system providers, Avalara delivers automated, cloud-based compliance solutions for transaction tax, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the US and around the world in Brazil, Europe, and India. More information at **www.avalara.com**.

Avalara E-Invoicing and Live Reporting is a solution designed to simplify compliance processes in companies operating internationally. Integrated into business systems via a single API, this cloud-based service is designed to adhere to evolving e-invoicing and live tax reporting requirements in different countries, enabling businesses to exchange e-invoices and report data in real time via tax authorities' platforms and exchange networks.

More information at **avalara.com/e-invoicing**

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