Deloitte.

OBUG

E-invoicing – Regulatory Update

April 24 2024

E-invoicing Update

Agenda & Objectives

Regulatory awareness

Context of E-invoicing & CTC

- What gave rise to digitization of Indirect Tax?
- What is E-invoicing & CTC?
- Why is it relevant?

Update on VAT in the Digital Age

- Status of the proposal
- Expectations for the coming years

Impact of E-invoicing for businesses

Setting the scene

- What is the impact of E-invoicing for companies?

Context of e-invoicing and CTC

Context: E-invoicing

EU Example: OECD & TA3.0

"A win-win: better detection of crime, a future proof system able to deal with the digital economy, higher revenue recovery via digital collection, and synergies that can make tax compliance easier for businesses and for much needed digitization of tax administrations."

OECD

Tax administration 3.0: Technology tools to tackle the Digital Economy, Tax Evasion and Fraud

Context: E-invoicing

Tax Administration 3.0

Tax Administration 1.0

Current tax administration is generally carried out through a set of broadly **sequential processes**. At a high level, these are the identification of the taxable person or entity, required reporting of transactions and incomes, the application of tax rules and calculation of tax due, the payment of tax, audits, and enforcement and appeals processes

- Forms driven (electronic & paper)
- Periodic, historical, aggregated data
- Manual, slow & costly
- Retrospective risk treatment
- Disconnected ecosystems

Traditional

Tax Administration 2.0

Tax administration is still carried out through a set of broadly sequential processes, but **increased digitalization and the development of new analytical tools** has significantly increased the efficiency and effectiveness of tax administration but did not reduce burdens for different taxpayer segments and lead to higher cost

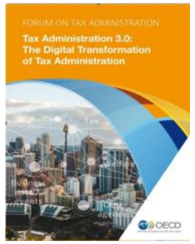
Adoption of more reliable reporting systems covering extensive data near-time (SAF-T, ERP, Vida, Pillar 2…)
Improved detection of possible noncompliance (use of data from banks, payment intermediaries, devices,…)
Improvements in services for taxpayers (e-filings, joined up services platforms…)

Advanced, here we are now

Registration → Assessment → Verification → Collection → Dispute

Tax Administration 3.0

Tax Administration 3.0 - has the potential to build in compliance in an increasing number of areas, to **move taxation closer to taxable events** and to significantly **reduce the burdens** that can arise from using **different processes for taxation** to those used in **taxpayers'** daily lives and **businesses**



Data driven
Event based, detailed & real-time data
Enables validation & automation
Enables assured data
Interoperable ecosystems
Enables international co-operation

Work in progress

Context

EU Example: How costly is tax evasion?

LATIN AMERICA

According to ECLAC*, the cost in 2015 of tax non-compliance in the region was estimated to **USD 340 billion.**

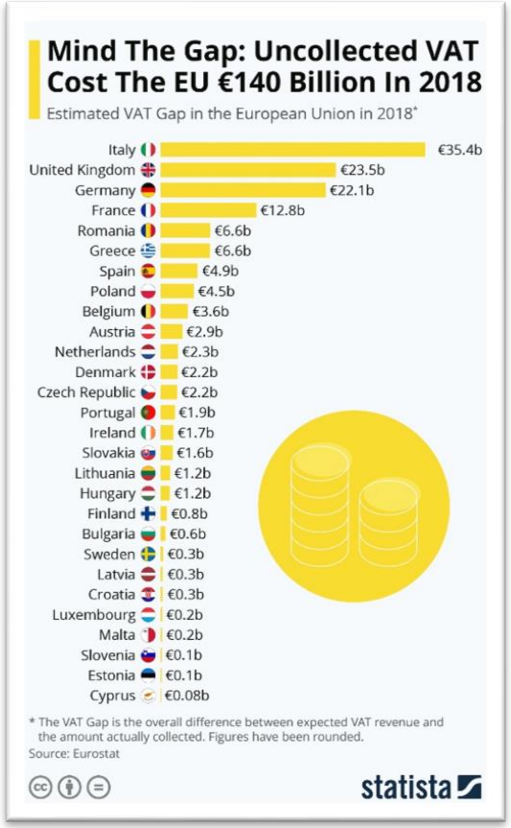
Chile and Mexico reported a reduced VAT gap of approximately 50% since the introduction of CTC.

EUROPEAN UNION

The analysis by TAXUD** estimated a VAT gap in EU of EUR 140 billion as of 2018.

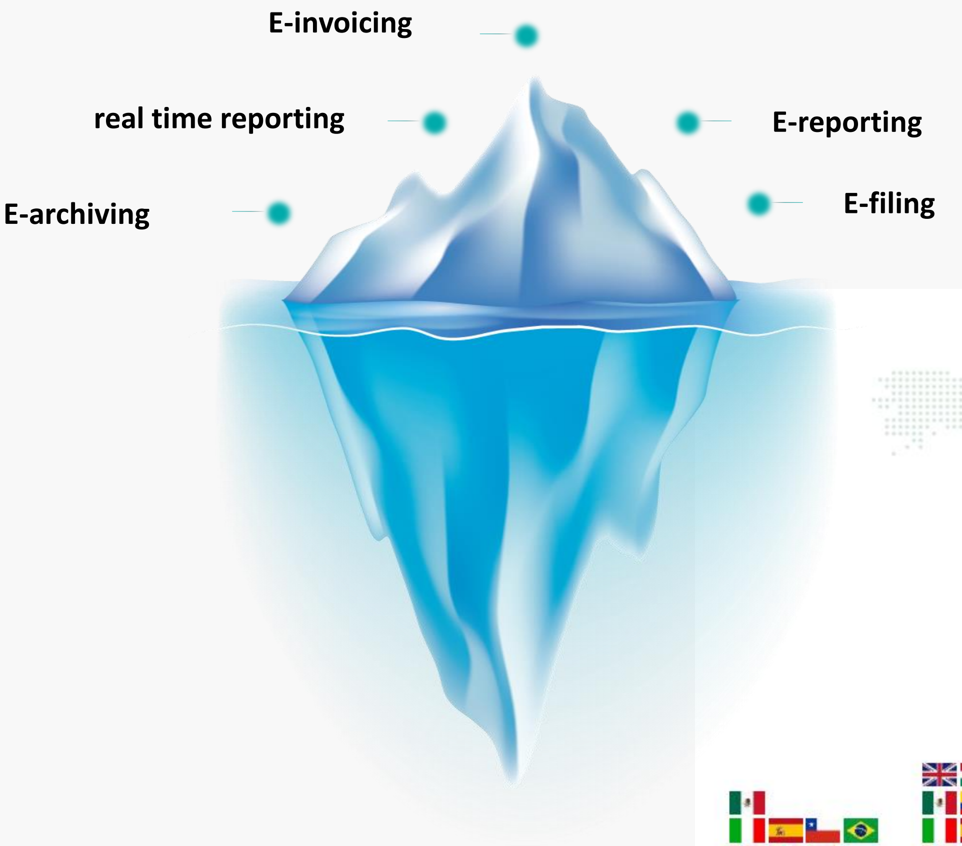
Member States lost around **€61 billion** in VAT in 2021, compared to €99 billion in 2020. Although revenue losses are inevitable, certain policy responses have proven effective in mitigating them, especially those focused on digitalizing tax systems, implementing real-time transaction reporting, and adopting e-invoicing.

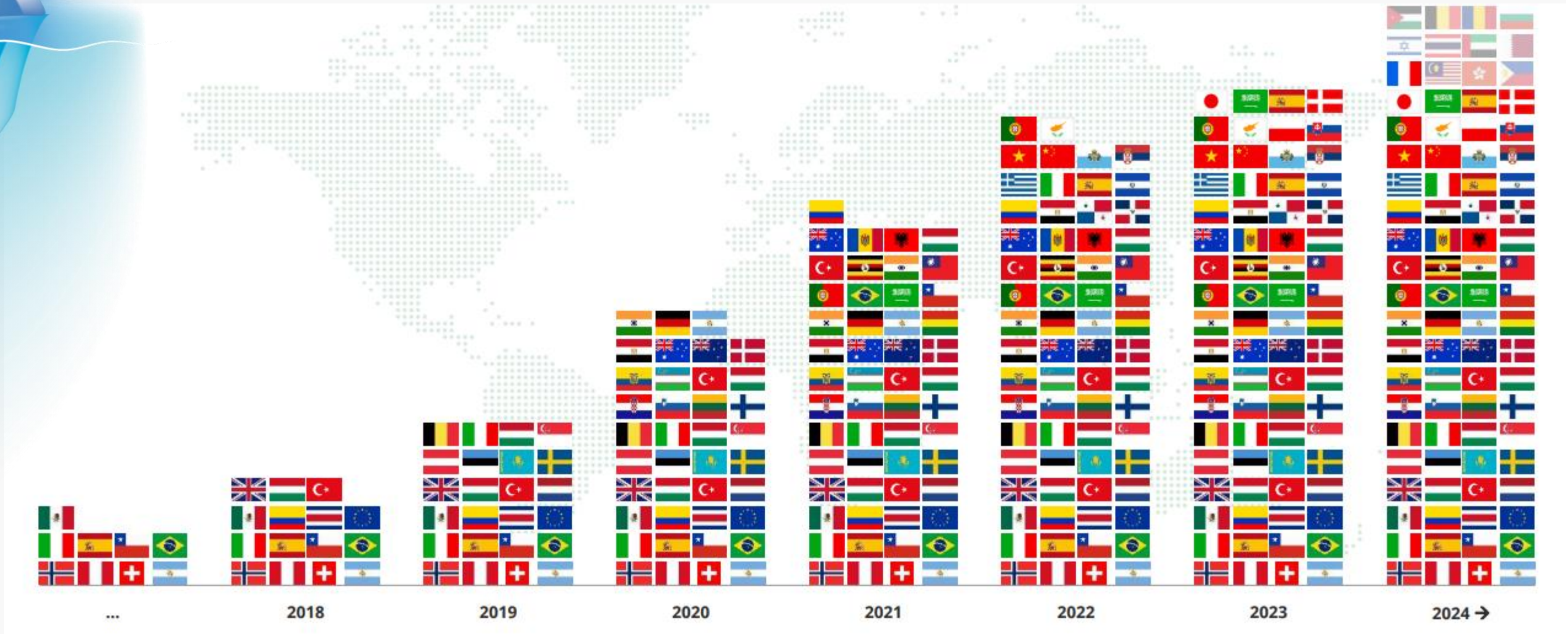
All forms of white-washing and criminal activity seems to have a tie with most VAT fraud and evasion.



Context: E-invoicing

The rise of the digital mandates





Context: E-invoicing

What is an E-Invoice?

OCR technology?

PDF invoice?

An e-invoice is a document in a **structured electronic format**, designed for automated machine-to-machine exchange and processing

Context: E-invoicing

E-invoicing is coming our way….

Unstructured
Visible and readable by people

Invoice No: 0025 Date: July 25, 2023

Enoch Jacobs
123-4567890
321-76543321
123 Street, City, US, 12345

Code	Description	Cost ($)
123	Diagnosis	150
124	Drugs	350

Total: $500

- PDF, Excel, Word
- Visual/unstructured
- Paper/E-mail PDF/Scanned
- Manual process

Human readable

Hybrid
Visible and readable by computers & people

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Total: $500

```
<?xml version="1.0"?>
<invoice number="0025" date="July 25, 2023">
  <patient firstname="Enoch" familyname="Jacobs" SSN="123456789">
   <phone type="home" number="123-4567890"/>
   <phone number="321-76543321" type="work"/>
   <address type="home" line1="123 Street" city="City" state="US"
zip="12345"/>
  </patient>
  <procedure code="123" name="Diagnosis" cost="150.00"/>
  <procedure code="124" name="Drugs" cost="350.00"/>
 <total>$500</total>
</invoice>
```

- PDF A3 with XML imbedded (e.g. FacturX)
- Visual | Structured
- Digital

Human readable

Structured
Readable by computers

```
<?xml version="1.0"?>
<invoice number="0025" date="July 25, 2023">
  <patient firstname="Enoch" familyname="Jacobs" SSN="123456789">
   <phone type="home" number="123-4567890"/>
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  </patient>
  <procedure code="123" name="Diagnosis" cost="150.00"/>
  <procedure code="124" name="Drugs" cost="350.00"/>
 <total>$500</total>
</invoice>
```

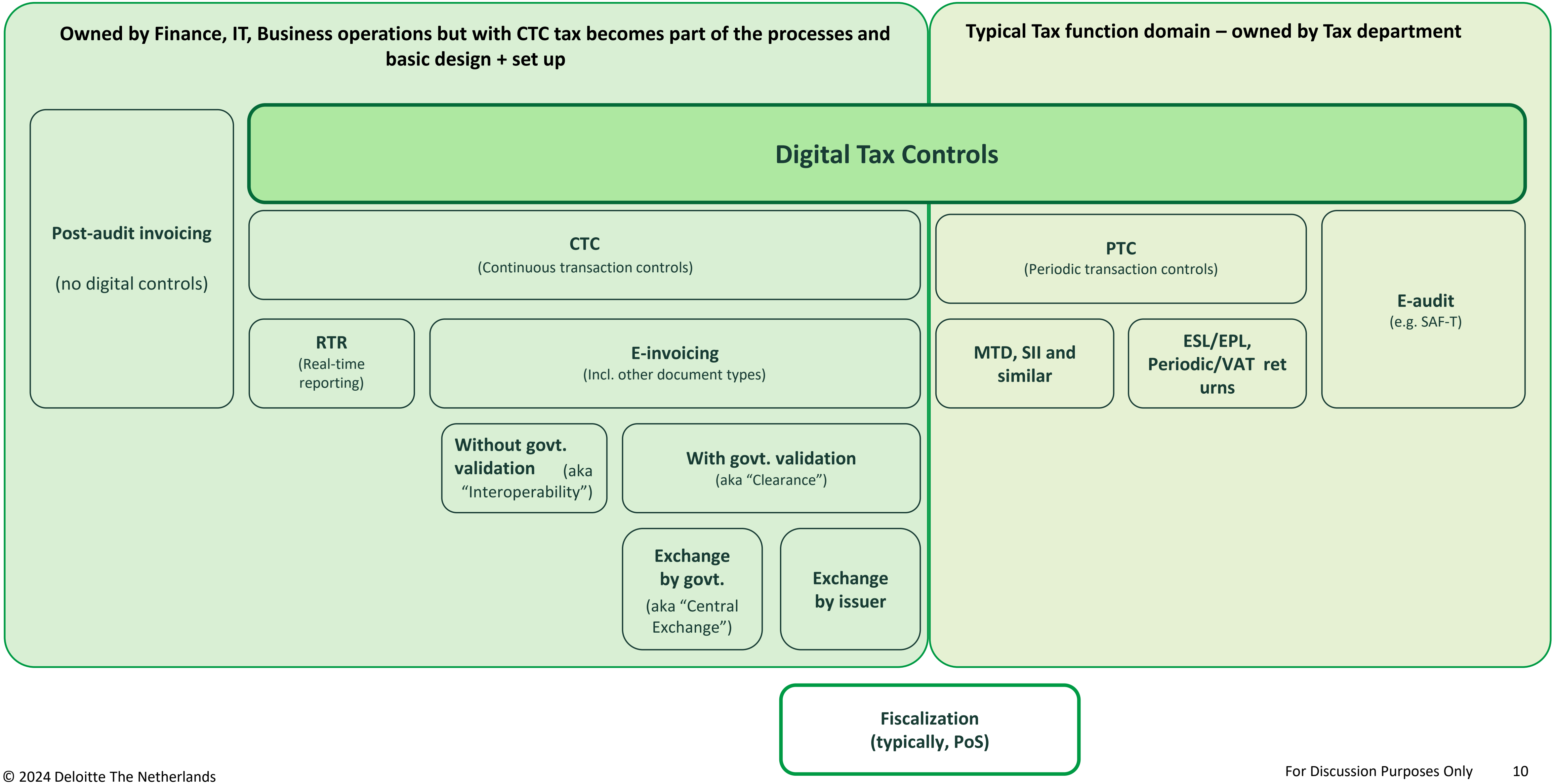
- XML, CII, UBL
- Structured
- Digital

Automated invoice process and digital processing

Computer readable

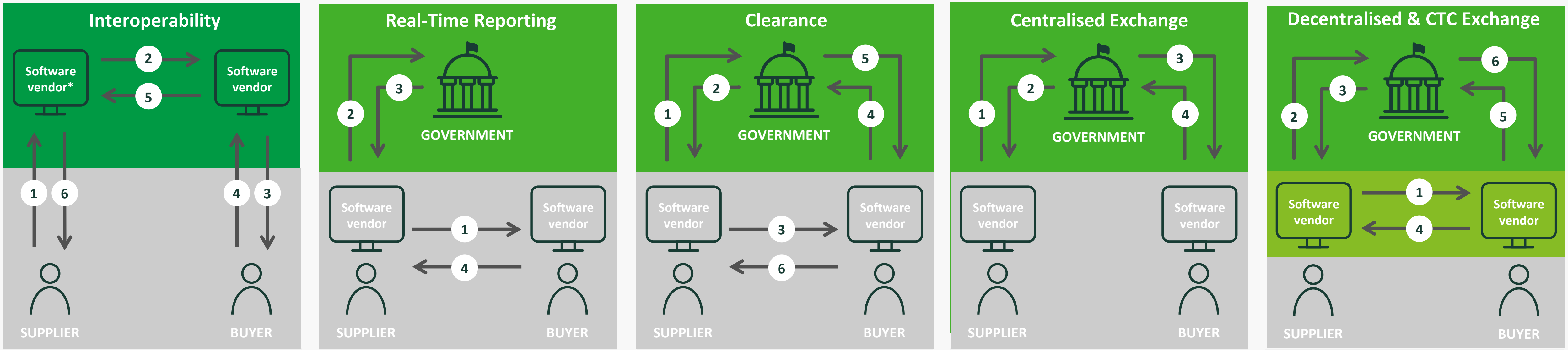
Context: E-invoicing

Understanding terminology



Context: E-invoicing

In different shapes and sizes….



Interoperability

- Peppol (20+ countries incl. non-EU)
- Finland
- Switzerland

Real-Time Reporting

- Hungary
- South Korea
- Spain (Basque)

Clearance

- Chile
- Mexico
- Saudi Arabia (B2B)
- Vietnam

Centralised Exchange

- Italy
- China
- Poland
- Türkiye (e-Fatura)

Decentralised & CTC Exchange

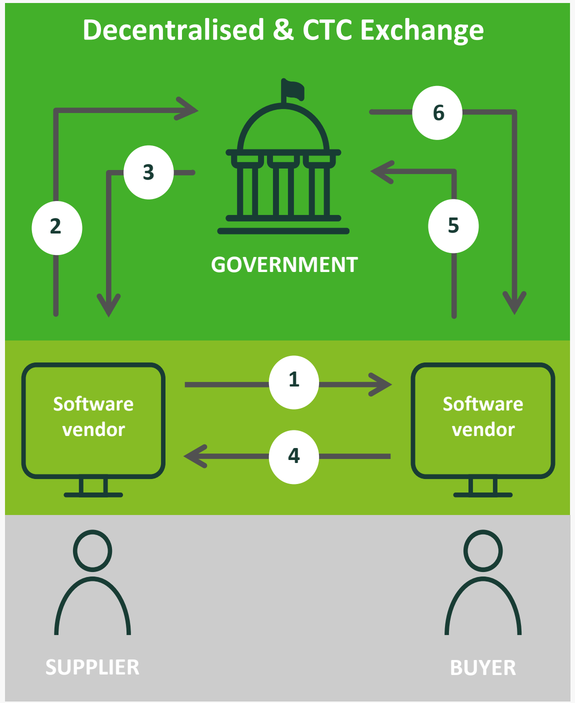
- Peppol
- EESPA
- ViDA
- Belgium
- Singapore

France Spain

Standardized Non-standardized Regulated

Context: E-invoicing

Trend Alert: Moving towards DCTCE?



EU specific – mandatory domestic e-invoicing & e-reporting measures

No plans released
Expressed the intention to implement
Regulations have been published
Obligation in force

Country	E-invoicing	E-reporting
Austria		
Belgium	Jan 2026*	
Bulgaria		
Croatia		
Cyprus		
Czech Republic		
Denmark	July 2024*	July 2024*
Estonia		
Finland		
France	Sep 2026*	Sep 2026*
Germany	Jan 2025*	
Greece		
Hungary		
Ireland		
Italy		
Latvia	2025*	
Lithuania		
Luxembourg		
Malta		
Netherlands		
Poland	TBD	
Portugal		
Romania	July 2024	Jan 2024
Slovakia		
Slovenia		
Spain	2025*	
Sweden		

*Changes to be expected

Update on VAT in the Digital Age

"The DRR part of ViDA is really an aim to bring ***harmonization*** *and an EU wide push to e-reporting of cross border transactions. In essence this is separate from e-invoicing but it aims to build on the adoption and further standardization of the format of structured e-invoices. The expected impact of introduction of Digital Reporting Requirements under ViDA is that it will lead to an estimated* ***increased net revenue*** *of 139 billion to the EU"*

Ludwig de Winter

Head of Sector VAT legislation and VAT fraud at the European Commission

Update on VAT in the Digital Age

Recent developments - ViDA (April 2024)

Why?

- Closing the VAT gap
- Lowering VAT compliance costs

What is the problem?

- EU MS introducing varying DRR in uncoordinated manner
- Traditional and digital business not treated equally
- Often businesses need to register in more than one EU MS

Changes under ViDa?

- Standard DRR in EU
- *Further taxation of the platform economy*
- *Single VAT registration in EU implementations*

Impact per January 2024?*

E-invoicing

- Revised definition structured e-invoice. PDF-files no longer deemed e-invoice
- New standard EU e-invoice (EN16931) for domestic and intra EU B2B – other domestic standards on B2B e-invoicing may be also allowed until 2028 if already in place
- Issuance of e-invoices no longer conditional upon acceptance of recipient
- As of the adoption of the proposal there is a significant change providing in Article 218 that e-invoicing will become the default system for the issuance of invoices

Impact per January 2025?*

DRR

- *Reporting of domestic reverse charge transactions in ESL*
- *Single VAT registration in EU*
- *Phase out call of stock-simplification*
- *Transfer of own goods OSS*
- *Extension of OSS to all B2C sales and cross border sales second-hand goods*
- *Mandatory domestic reverse charge mechanism for non-established suppliers*

Impact per January 2028?*

DRR

- Structured e-invoice as the source of DRR feed (e-invoice within 10 days from taxable event)
- Mandatory e-invoicing for (almost) all EU cross-border supplies of goods and services at EN16931 standard
- Setup of Central VIES for tax authorities
- Flexibility around domestic e-invoicing mandates that are not in line with EU standards
- *Current ESL abolished*
- Mandatory elements added to paper and e-invoice
- Paper invoices – outside of intra EU – would only be allowed if authorized by MS
- *Mandatory domestic reverse charge mechanism for non-established suppliers*

Update on VAT in the Digital Age

Recent developments - ViDA (April 2024)

"Optimism that political agreement will be reached on all three ViDA components at Ecofin meeting 14 May"

Recent Developments

ViDA evolved to an integrated e-invoicing/e-reporting process

The structured e-invoice will be the source of the DRR feed – instantaneous, no e-reporting in a second step → Timing: likely 10 days between the taxable event and the e-invoice

Multi-modality

E-invoices can be issued on/from a government portal, by a third-party service provider or by the business itself. There will be a technical validation to be made in the e-invoice solution, invoices will be verified/checked upon issuance, not necessarily cleared by government itself but the government will have the possibility to retrieve the necessary and relevant transactional structured e-invoicing data from the network (e.g., as corner 5 in a Peppol 5 corner model)

Intra-EU DRRs vs. domestic DRRs

The decentralized clearing via a networked approach is, as we understand, the blueprint also for the model for intra-EU DRR. It is expected that the Commission will be flexible towards existing derogations for domestic DRRs are allowed to phase out and new adopters of domestic DRR will design towards the future intra-EU model → Timing of adoption of the model for intra-EU DRR is not fixed at this stage

Data format

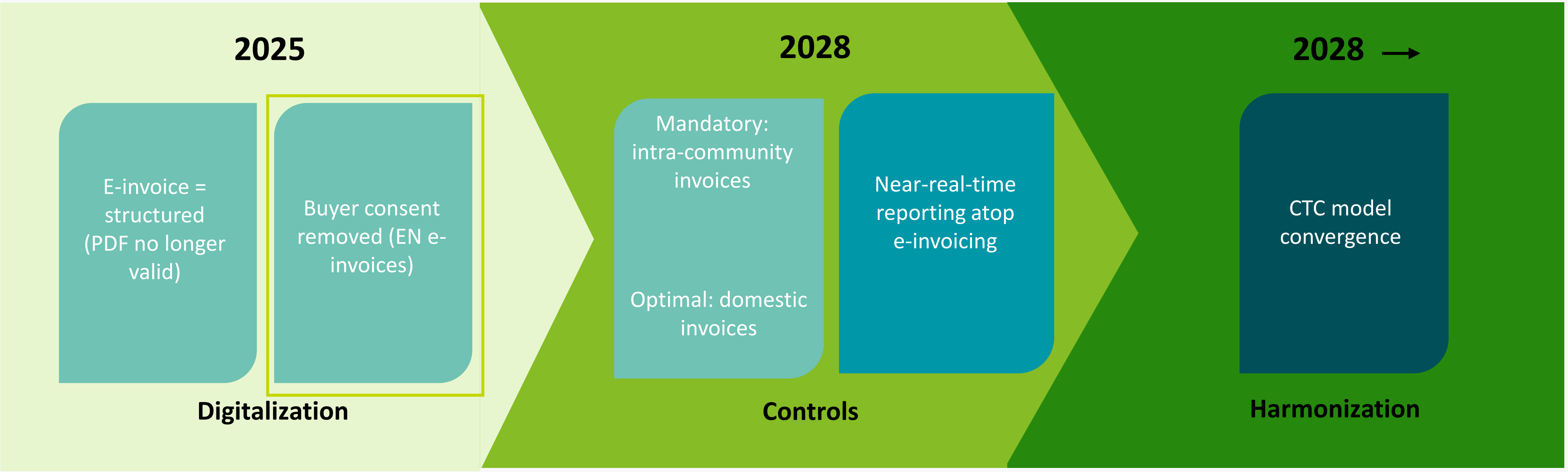
Data format will be European standard at least or other interoperable formats – Member States are free to extend this format (e.g., Peppol or UBL as long as they meet the minimum of the EU standard EN16931)

Removing the acceptance requirement for e-invoices (Article 232)

Aim that e-invoicing will become default, but it is not entirely clear yet whether the article will be either deleted or amended in such a way that in case of domestic e-invoicing mandates, the acceptance of recipients may be removed. It is also likely that an exception for SMEs will be included – this is likely to start as from 1 January 2025

Update on VAT in the Digital Age

Expected timeline – ViDA DRR pillar



Depending on decision with respect to Art. 232 E-invoicing requirements E-reporting requirements

Update on VAT in the Digital Age

Current status ViDA (April 2024)

		Current framework	ViDA proposal (Dec '22)	Proposed amendments
E-invoicing	Mandatory e-invoicing	Equal treatment paper & e-invoices, derogation needed form mandate	E-invoicing default option and mandatory for intra-EU transactions	Optional for domestic and intra-EU transactions?
	Format	Structured (e.g. XML, Json, UBL) and unstructured (e.g. pdf)	Structured and use of EN 16391 standard should be allowed	Structured and use of EN 16391 standard questioned (wider variety of formats)
	Pre-clearance/distribution models	Optional, after derogation approval EC	Not allowed, existing models to be phased out by 2028	Allowed some validations/link to certified platforms/ Leverage intervention from e-invoicing / service providers for validity
	Summary invoices	Allowed	Not allowed	Allowed
	Additional invoice content	N/A	IBAN, payment data, sequential numbering for credit invoices	Sequential numbering for credit invoices
	Customer consent	Required	Removed	Removed or amended for flexibility

		Current framework	ViDA proposal (Dec '22)	Proposed amendments
E-reporting	What	Recapitulative statements	Digital reporting requirements	Digital reporting requirements
	Reporting frequency	Periodic (monthly, quarterly or yearly)	Near real-time (within 2 working days)	E-invoice source for DRR (within 10 days)
	Granularity	Aggregated data	Transactional data	Transactional data

Impact of E-invoicing for businesses

Impact of E-invoicing for businesses

EU Example: Benefit of e-invoicing

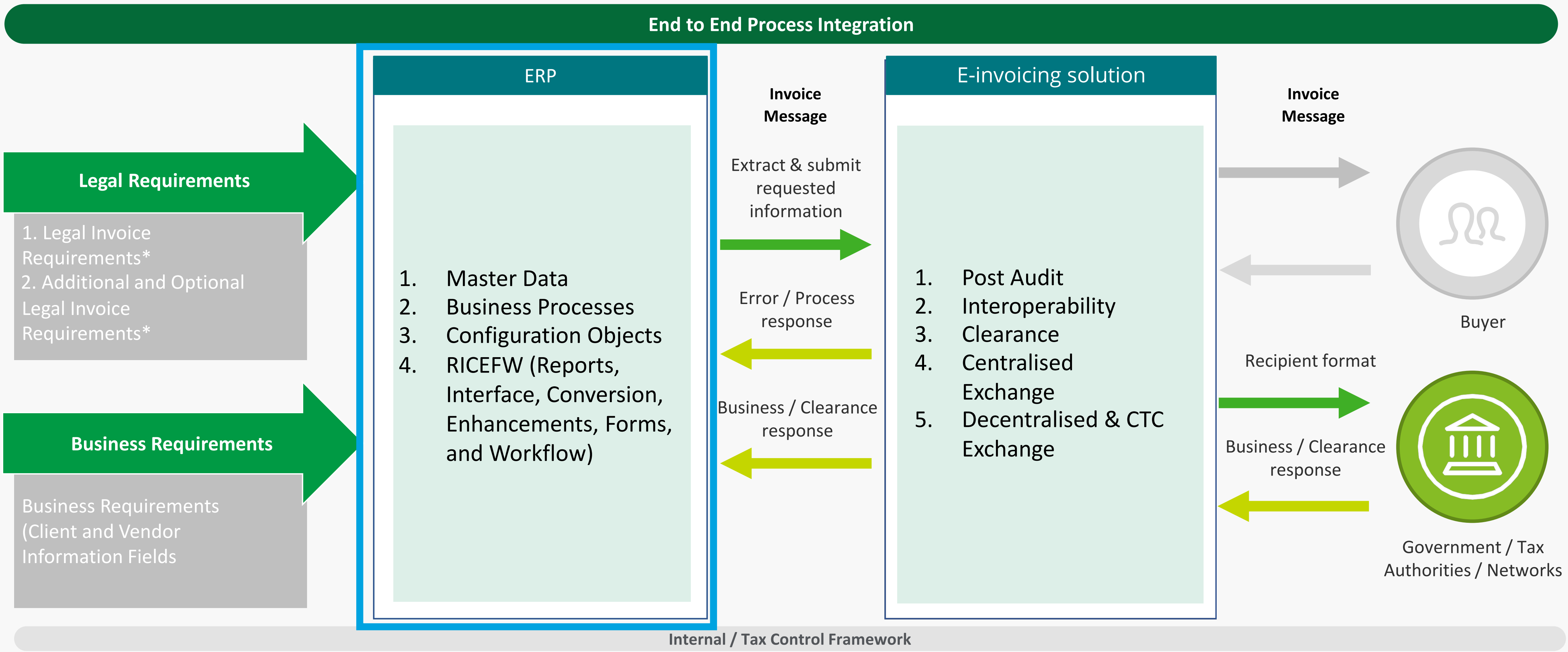
“The price of an e-invoice is less than a postage stamp, the price of a paper invoice is more than 10 euro’s.”

French Government

Silver lining

Impact of E-invoicing for businesses

Setting the scene



Key considerations for a global e-invoicing strategy

Why *have a global vision?*

- Achieve scalability
- Reduce cost
- Increase implementation response time
- Increase process efficiency
- Optimize resources
- Decrease tech debt
- Global oversight
- Opportunity to further transform and automate

What *to consider?*

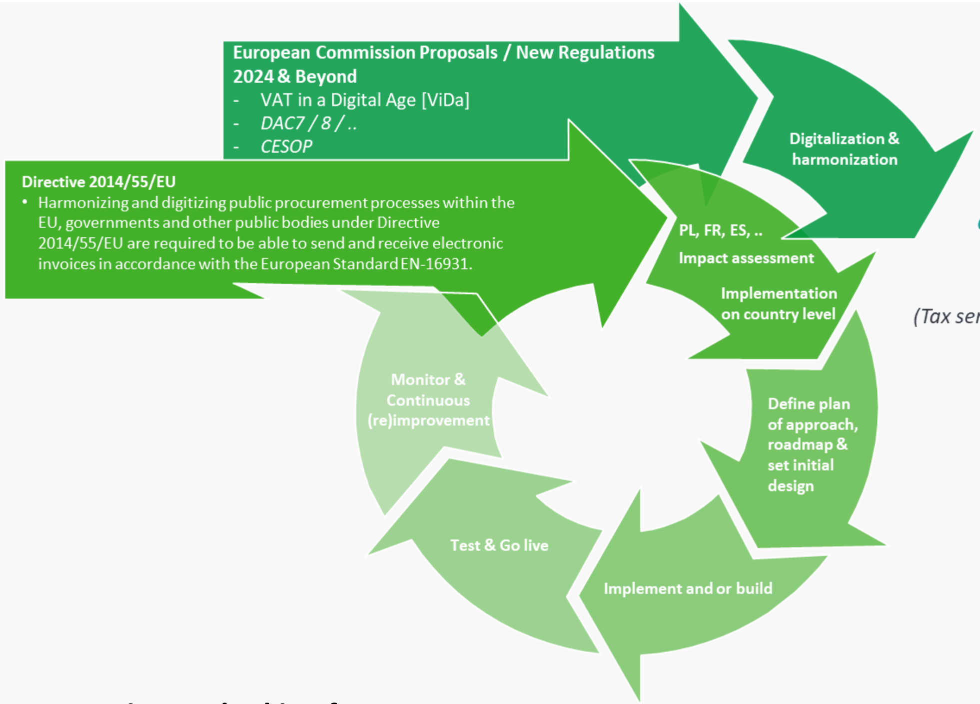
- **Scope and impact** (e-invoicing and/or e-reporting obligations per jurisdiction)
- **Technology architecture** (single of multiple ERP/billing systems)
- **Data quality**
- **E-invoicing solution(s)** (incl. opportunities to leverage from other finance/transformation projects)
- **Business readiness**
- **Resource allocation** (in-house/external resource and roles)

How *to deploy?*

- **Engage Key stakeholders** (IT, Finance, Tax, Business, AP, AR, etc)
- Agree project **roadmap** and **critical milestones**
- Decide an effective **solution** or combination of solutions to meet the obligations
- Understand **resource needs** (incl. external implementation partner)
- Define roles and responsibilities and consider **interim solutions**

Impact of E-invoicing for businesses

How to start?



Companies are looking for:

- Defining a long-term strategy for implementing E-invoicing, E –reporting & reconciliations with VAT returns
- How to position DRR & CTC within the company, who is owner this project and how to align Tax, IT, P2P, R2R & O2C?
- Transition from localized tools/ solutions towards global / regional approaches
- Build or Buy from Technology perspective
- What data & formats are required, mandatory / optional / business requirement
- How to train or upskill teams to manage e-invoicing?

Questions?

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