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Striving for the 'Perfect Invoice' in a Digital World

In a global digital economy with more than 6 billion smartphone users expected worldwide by 2020,[1] businesses see expanding new markets at nearly every turn.

This digital trend is not just providing benefits for users but to governments and tax collection as well. The increased use of e-invoicing and electronic filing by government authorities is one such example of governments using digital tools to facilitate compliance and track fraud – quicker and more efficiently.

This comes in handy for multinational companies: as they tap new growth opportunities for their goods and services, they face a steady stream of customs and indirect tax regulations – such as value-added tax (VAT) and its counterpart, the goods and services tax (GST) – along every stage of the supply chain, across a multitude of jurisdictions.

Growing Global Trend

Just as indirect tax regimes continue to grow, with India the most recent country to adopt a nationwide GST regime, in July 2017, many countries are adding a new weapon to their arsenals to ensure indirect tax compliance: e-invoicing.

Driven by emerging digital frontiers and globalization, which makes tax collection even trickier, governments are increasingly leveraging technology to strengthen collection of indirect and customs taxes. In many countries, this effort has gone hand in hand with requirements to provide electronic files directly from companies' enterprise resource planning (ERP) systems. That move, in turn, provides governments a more efficient means of auditing – and enforcement.

E-invoicing – a form of electronic billing in which transactional documents such as purchase orders, payment terms, and credit notes are sent digitally among relevant parties – is gradually being mandated by governments and jurisdictions in their efforts to track and ensure indirect taxes and customs regulation. Meanwhile, steep consequences for noncompliance are being announced with mounting frequency.

France is just one of many countries now using e-invoicing to ensure a reliable audit trail. Though French tax authorities have historically resisted the push toward e-invoicing implementation across the European Union, they are now having second thoughts. The French Finance Act for 2017 outlines an intricate set of requirements for archiving paper invoices in electronic form.[2] The consequences for noncompliance aren't insignificant.

"The risks, in case of noncompliance, or of absence of reliable audit trail documentation, would be a penalty equal to 50 percent of the transaction amount for sales invoices (decreased to five percent if the operation is regularly accounted) or the right to deduct VAT quoted on purchases invoices," note VAT experts Laurent Chetcuti and Romain Dayan of French law firm Fidal.

France is just the tip of the e-invoicing iceberg. Currently more than 55 countries have adopted, or are considering, e-invoicing mandates.[3] These mandates include requiring the invoice to be digitally signed and sent to the government in real time – a requirement that will one day become universal, predicts Richard Ainsworth, a professor with Boston University School of Law's tax program. "The data will go to the tax authority, and I expect it will be stored in the cloud, in encrypted form, and placed on a blockchain."

That future is already moving into the present. Ainsworth shared that to date, countries that require or will soon require invoices to be digitally signed and immediately sent to the government – for *all* transactions – include Argentina, Brazil, China, Croatia, Greece, the Gulf Cooperation Council (GCC), Hungary, Indonesia, Italy, the Philippines, Portugal, Romania, and Venezuela. Meanwhile, countries adopting e-invoicing requirements, by market segment, span Austria, Belgium, Germany, the Netherlands, and Sweden.

Mandatory E-Invoicing

Here's a sampling of governments requiring e-invoicing in one form or another:

- Sweden's implementing the EU directive on e-invoicing in procurement by 2018.
- Australia tapped an e-invoicing supplier to standardize government e-invoicing.
- Brazil requires companies use a signing attribute proving invoice approval.
- Chile requires digital certificates and unique numbers for document authentication.
- Mexico requires digital stamps to verify e-invoice origin and authenticity.
- Colombia will require companies declaring VAT and consumer goods tax use e-invoicing in 2019.
- The U.S. Office of Management and Budget instructed agencies to shift to e-invoicing for federal procurement by 2018.

1 IHC Markit, "More than Six Billion Smartphones by 2020, IHS Markit Says," January 18, 2017, http://news.ihsmarkit.com/press-release/technology/more-six-billion-smartphones-2020-ihs-markit-says.

2 Laurent Chetcuti and Romain Dayan, "France: Rules on Electronic Archiving of Invoices Changed by Finance Act," *Daily Tax Report: International*, Bloomberg BNA, June 20, 2017.

3 "The Global State of E-Invoicing Mandates," Accounts Payable Network, 2013, http://mailtemplates.s3.amazonaws.com/The%20Global%20State%20of%20e-Invoicing%20Mandates%20Report.pdf.

As more governments move toward mandatory e-invoicing adoption, businesses now face a tighter window in which to provide a tax-compliant invoice. In addition, regardless of whether a company faces such requirements in any given country, they will eventually face mounting pressure to implement e-invoicing amid a growing tide of adoption by industry partners in countries and jurisdictions where it is a requirement. Sooner or later, uniformity will reign supreme.

At face value, then, the benefits of e-invoicing are obvious.

"I would think that electronic invoicing can give recipients more confidence, because the invoice is being produced and issued in a standardized way, which should reduce the risk of human error or inconsistency," said Joanna Norland, a technical tax editor with Bloomberg BNA.

Greater Onus on Businesses

No change comes easily, however, and adopting new policies and procedures is never easy, especially when it comes to record-keeping. Such fears notwithstanding, many multinational companies have already hopped on board the e-invoicing bandwagon, as Ainsworth notes, prompting companies venturing into global business markets to take a closer look at e-invoicing and ask how prepared they are, at the outset, to provide accurate and timely data. The reasons for such data soul-searching aren't hard to miss.

In a digital age, the speed of reporting increases the speed of error. Think about it: If a company relies on a faulty classification system, where data lacks standardization, or in other cases, where products or services are conspicuously mislabeled, all that information – fed into an electronic bill – will only be amplified with the automation that ensues.

In such a scenario, internal details of supply chain and accounting now become glaringly visible to governments, affording local tax authorities the ability to more reliably validate (or quickly reject) customs and indirect tax declarations based upon detailed commercial invoices now readily available with tap of a keypad. That heightened transparency, and accompanying risk of penalty fees leveled for noncompliance, makes data pre-planning essential for businesses.

"There is no point in talking about e-invoicing if the data that you use to populate an e-invoice is not accurate," said Gisele Belotto, a managing director in KPMG's U.S. Trade and Customs practice. "It's essential for businesses to understand and automate the different data elements – who's responsible for them, what things can go wrong, and what is the impact if they do?"

These are not easy questions to tackle, especially when the data requested by governments and jurisdictions spans an intricate array of details: trading partners, product descriptions, unit and extended values, discounting, incoterms, and price and payment terms, among many others. To confound matters, this dizzying array of data is all typically pulled from different departments, both inside and outside a business. The challenges don't end there.

"Far too often the challenges are with extracting data through a company's general ledger, the required corrections that must ensue [to reconcile lack of standardization], and the submission that must occur in a timely manner," said Niren Saldanha, a partner in KPMG's Indirect Tax Technology practice.

Considering all these moving parts, tapping an e-invoicing solutions provider is the easy part. What's harder is the preliminary legwork that needs to happen to establish an internal infrastructure that provides standardized data of goods and services in real time.

The imperative to assess a business's ability to accommodate a gradual, worldwide shift toward e-invoicing will only grow in urgency. In fact, some experts see the change happening at a quick pace already.

"[It's already] stronger than gradual, if they are doing it in Africa," Ainsworth said. "Look at Rwanda – fully digital now, revenue increase of 10 to 16 percent in one year."

Macro Trends

Some of the push toward e-invoicing rests on the steady, incremental move toward cashless societies, and the accompanying technology disruptions that underpin it. But the larger, primary catalyst for e-invoicing adoption is the rising tide in VAT and GST tax reforms now occurring worldwide, along with ongoing efforts to combat tax evasion.[4]

Beyond such countries as India, whose new GST regime is pushing to simplify indirect tax compliance requirements through more uniform tax rates and provisions, the Gulf Cooperation Council countries (spanning Saudi Arabia, Qatar, Oman, United Arab Emirates, Bahrain, and Kuwait) plan to introduce a harmonized VAT system in 2018. In addition, all companies implementing VAT will have to keep a record of transaction documents, with additional administrative costs incurred for storing paper documents.[5]

Elsewhere, the European Commission recently published its VAT Action Plan,[6] which metes out a timeline for modernizing the European Union's current VAT system. Four years prior, the G20 launched, and the OECD headed, the Base Erosion and Profit Shifting (BEPS) project, outlining digitally driven countermeasures to address sophisticated strategies employed by some

4 Gijsbert Bulk, "Five Key Trends Sweeping the Global Indirect Tax Landscape," *Daily Tax Report: International*, Bloomberg BNA, March 14, 2017.

5 Christine Lagarde, "Generating Public Revenue to Build Resilient Economies," International Monetary Fund, February 13, 2017, https://www.imf.org/en/News/Articles/2017/02/12/Generating-Public-Revenue-to-Build-Resilient-Economies; and "VAT in GCC: The case for E-Invoicing and E-Archiving," AMEInfo, July 6, 2017, http://ameinfo.com/money/economy/vat-gcc-case-e-invoicing-e-archiving/.

6 "Action Plan on VAT," Taxation and Customs Union, European Commission, https://ec.europa.eu/taxation_customs/business/vat/action-plan-vat_en. See also, "Global Indirect Tax Outlook: 2017 and Beyond," KPMG, April 5, 2017, https://home.kpmg.com/xx/en/home/insights/2017/04/global-indirect-tax-outlook-2017-and-beyond.html.

Just as some European Union member states are pushing toward uniformity and leveraging e-invoicing to propel transparency and standardization, others are seeing their tax requirements complicated by shifting new political realities. The U.K.'s exit from the European Union could trigger new duty fees and VAT cash-flow requirements, notes KPMG.[7] Similar questions surround a potential U.S. withdrawal from NAFTA.

Whether coming or going, one thing is clear: Many VAT and GST rules currently on the books precede recent technology developments. The growing reliance on data and analytics, for one, helps customs determine price benchmarks for new products, as in Brazil, Belotto noted; and the rise of disruptive business models, such as e-commerce platforms, bring into question who pays the growing bill of VAT and GST fees.

Lawmakers Are Playing Catch-Up

Where multinational businesses may have reaped new levels of growth in the past, governments and local jurisdictions have seen globalization confound efforts to sufficiently collect income and corporation taxes; meanwhile, a corresponding growing reliance on VAT, and its crediting system, depends on 'virtuous actors,' from purchasers to suppliers, properly reporting and complying with an intricate array of indirect tax requirements.

Not surprisingly, the fraudulent use of VAT credits is of escalating concern to governments worldwide; the European Union alone loses £100 billion per year to VAT fraud, noted Ainsworth of Boston University. Meanwhile, governments are placing the lion's share of compliance on company shoulders, versus the suppliers they engage along the way.

Escalating VAT Penalties

The penalties for VAT fraud, whether based on careless or deliberate accounting errors, are becoming increasingly steep, too. The U.K. government levels a penalty charge to be calculated at 30 percent of the potential lost revenue,[8] and that's just for careless errors – signaling just one of many new measures being implemented worldwide. Beginning in 2018, for example, the United Arab Emirates will shut down a business for three days and level penalties of up to 500 percent on top of the VAT debt already incurred.[9]

These are just a few examples of the penalty landscape that multinational companies may expect ahead. E-invoicing is increasingly synonymous with such enforcement.

"E-invoicing is necessary to control fraud," Ainsworth said. "Tax will drive this, and the exchanges anticipated in antifraud measures will accelerate it."

E-Invoicing Is Here. Are You Ready?

While e-invoicing is by no means the norm in all corners of the globe, today's businesses can ill-afford a myopic view, whether or not they face mandates for adoption across all jurisdictions in which they operate.

"MNEs are already there. The supply chain is not controlled by paper letters issuing from the HQ [headquarters]," Ainsworth said.

Led by countries such as Mexico, Brazil, India, and Spain, the growing shift in standardizing data and making it transparent is here to stay, and like a stack of cards, multinational companies will eventually need to fall in line with e-invoicing if they are to survive in a global digital economy – where goods and services are increasingly sold across borders, each with its own set of complex indirect tax regulations.

Before e-invoicing implementation can ever occur, though, companies should look at internal operations, and ensure close collaboration across any and all departments that touch data elements, note Saldanha and Belotto of KPMG.

"It's a highly cross-functional process, starting with people within an organization, as well as your systems, your data, and your overall planning," Saldanha said. "Working together means looking at the ETL (extract, transform, load) process, specifically assessing your master data and determining how you can set some semblance of automation and standardization of internal operations, AR [accounts receivable] and AP [accounts payable] management, in particular."

Answering these questions requires a thorough understanding of who does what within your organization – in particular, the different players and stakeholders who impact data accuracy and standardization, as goods move across borders.

"You need to understand the whole trajectory for company information," Belotto said. "Who is responsible for creating data in the first place; what systems store it; what's the process to maintain it, and what different systems is the data fed into, until it ultimately reaches the invoice stage."

Belotto recommends establishing a steering committee across core functions – customs, tax, legal, and finance, especially – to address ways to standardize and create single repositories of data. Similar conversations should occur with external trading partners. These meetings need not be limited to compliance concerns, either.

"If governments now have greater visibility into operations, businesses should be using that data and analytics as well, to focus on promoting greater efficiency and improving profit margins," Saldanha said. "Ultimately e-invoicing is the lifeblood of your business."

7 "Global Indirect Tax Outlook: 2017 and Beyond," KPMG, April 5, 2017.
8 "Briefing on New Tax Penalties," The National Archives, HM Revenue and Customs, United Kingdom.
9 David Daly, "Saudi Arabia Has Set Precedence with its VAT Legislation, UAE Needs to Catch Up," *The National*, July 25, 2017, https://www.thenational.ae/business/economy/saudi-arabia-has-set-precedence-with-its-vat-legislation-uae-needs-to-catch-up-1.614055; and "UAE To Impose 500% Penalty for VAT Evaders: Ministry," Stature Accounting and Consultancy Services, http://www.statureaccountants.com/uae-to-impose-500-penalty-for-vat-evaders-ministry/.

Checklist: Anatomy of the 'Perfect Invoice'

While requirements vary by jurisdiction, a 'perfect' invoice should include:

- ✓ The buyer and seller
- ✓ Company tax ID
- ✓ Registration numbers
- ✓ Invoice number to reference back information to your ERP system
- ✓ Correct description of the product or service you're selling
- ✓ Unit price and an extended price for your product or service
- ✓ Freight information
- ✓ Tax rate
- ✓ Tax amount
- ✓ Country of origin
- ✓ Purchase order number and payment terms (optional)

Does your business have the infrastructure to provide customs officials this data, accurately and in real time?

Conclusion

In a global digital economy, the answers to staying ahead reside less on the purchase of a flashy new tech solution and more on the steps businesses can take beforehand to ensure accurate and timely data right out of the gate.

Just as companies reap profits in global markets, jurisdictions worldwide remain hungry for a piece of the action, demanding a greater share through customs, VAT and GST revenue. More and more, in a shift that's far more than gradual, e-invoicing mandates are being served as a means of enforcement, heightening visibility into company data – and compliance.

A company's long-term survival hinges on its ability to feed jurisdictions a steady, accurate supply of data, in real time, while satisfying indirect tax and customs requirements along the way. The first step in ensuring the data you provide is fully transparent, and standardized, is to look internally, across departments, and externally, with vendor partners. Are all your players and stakeholders on the same page?

That is where the conversation needs to start, before a company ever turns the switch on any e-invoicing solution. Doing this hard, preliminary legwork upfront will not only maximize the odds of the perfect invoice but also help ensure long-term corporate survival, now and well into the future.

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