THE RISE OF E-INVOICING:

THE DIRECTION OF TRAVEL

EBOOK

Avalara

Tax compliance done right

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Contents

Overview

> Until just over a decade ago, businesses could choose to adopt digital processes to replace the manual paper-based procedures in their finance departments with automation. For tax compliance purposes, invoices still needed to be issued and stored as paper originals in most cases.

Fast-forward to today and the use of electronic invoicing among businesses is widely adopted. In fact, the global e-invoicing market reached a value of $11.2 billion in 2022. Looking ahead, the market is expected to reach $35.9 billion by 2028, with governments around the world no longer accepting paper invoices for payment.

While not required in the U.S., e-invoicing is now mandated by a growing number of governments globally: 83 countries currently have some kind of e-invoicing or e-reporting legislation that covers voluntary e-invoicing for efficiency and mandatory e-invoicing for compliance. The time for optional finance transformation is over.

Paper invoices are quickly becoming a relic of the past. It's time to experience the future of business automation with e-invoicing. In this ebook, we'll explain what e-invoicing is, how different governments are handling e-invoicing mandates, and what you can do to protect your business operations against the backdrop of developing regulatory requirements.

E-invoicing 101

If you're immersed in the professional finance world, you may be aware that governments are rolling out e-invoicing mandates. Their goal is to limit the damaging impact of the "hidden economy" and drive efficiency through technology. But what exactly is e-invoicing?

In essence, e-invoicing is the replacement of paper-based invoice documents with electronic alternatives. At a glance, standard PDF invoices may seem like e-invoices in that they are electronic documents. However, generating PDFs, emailing them to the recipient, and processing them still requires human intervention. In contrast, e-invoicing automates processes across the entire invoicing life cycle, from issuance to archiving.

Increasingly, businesses worldwide recognize the advantages of streamlined e-invoicing processes. Not only does e-invoicing ensure accuracy by removing the risk of human error, but it also helps to expedite time-consuming, tedious tasks for finance teams and boost efficiency.

The negative impact of the global pandemic on consumer spending combined with the growing demand for digitalization outside of the U.S. has accelerated the eventual digital transformation of tax. More and more governments are introducing mandatory e-invoicing regulations. Tax regimes in individual countries are digitalizing rapidly, leaving some businesses scrambling to catch up. The clock is ticking for businesses of all shapes and sizes to modernize their invoicing systems and remain compliant with changing legislation.

Practical benefits of e-invoicing

> On the one hand, e-invoicing naturally means a substantial change in invoicing processes — something that some finance departments may view with trepidation.

On the other hand, e-invoicing offers a wealth of advantages to businesses. We can split anticipated benefits into four categories:

1. Automation
2. Compliance
3. Control
4. Sustainability

Combined, the benefits of e-invoicing result in one of the most impactful outcomes a business can achieve: cost savings.

Automation

Automation of the invoicing process allows Accounts Payable (AP) and Accounts Receivable (AR) staff to eliminate tedious, paper-intensive processes. Employees in finance departments get an opportunity to work on added-value tasks, leveraging data for business analysis and smarter business decisions.

Automating finance processes also slashes departmental costs, making e-invoicing a more affordable option compared to paper invoices. With paper invoicing, businesses need to budget for the direct costs of the materials, printing, and delivery, plus indirect costs related to the time and labor sunk into manual processing. The pennies quickly add up.

In fact, a report by Billentis estimates that automated e-invoicing will result in huge savings of around 60–80% compared to conventional paper invoice processing.

Additionally, by removing the need for human intervention, e-invoicing ensures the invoice is correct the first time by transferring data directly from system to system. Data integrity is guaranteed, freeing up a significant portion of time that AP teams would otherwise spend rectifying data errors.

An automated AR system also empowers businesses to receive payments promptly, given that invoices are available to recipients immediately. By eliminating bottlenecks resulting from troublesome late payments, businesses can improve cash flow and staff are relieved from the pressure of chasing unpaid bills. Getting paid on time is crucial to business leaders, supplying the funds they need to promptly invest in their companies and drive growth.

Compliance

Tax authorities all over the world might be on the same page when it comes to the need for e-invoicing and tax digitalization. However, compliance is never uniform. Each tax authority has its own independent requirements, standards, deadlines, platforms … the list goes on.

The complex international landscape poses a significant challenge for global businesses, which must abide by each country's e-invoicing and tax regulations. Failing to do so could result in hefty fines and disruptive audits. For instance, to ensure invoices are reported correctly, the Italian government has set penalties of €2 for each invoice not submitted to the Sistema di Interscambio (SDI), up to a maximum of €400 per day. However, if the taxpayer submits the invoice to the SDI within 15 days of the deadline, the penalty will be halved.

A flexible and robust e-invoicing solution can continuously adapt to compliance changes.

It will generate accurate invoices, issue them within the correct deadlines, and ensure they're submitted through the correct platform so finance departments can rest assured their business is in full compliance.

Control

A key problem with manual invoice processing lies in the lack of control finance departments have over the sensitive data the documents contain. Once the data is inputted and sent off, there's no guarantee that the invoice will reach its intended destination problem-free.

Furthermore, the data flowing through AP departments is often in different formats and stored in disparate silos that make it impossible to use strategically. As data is an essential component of competitive business strategies, paper invoicing is even more wasteful than it initially appears.

E-invoicing offers a reliable solution for finance teams hoping to gain better control over their data and how they use it. The technology provides end-to-end visibility for both incoming and outgoing invoices, minimizing the risk of lost sensitive information. Most importantly, the data extracted from the invoices is standardized, organized, and usable, meaning finance teams gain critical insights into their income and expenses to make smarter business decisions.

Sustainability

In 2021, world leaders and environmental experts took to the stage at COP26 in Glasgow, urging both private and public entities to ramp up their environmental endeavors in an effort to mitigate the risks of global warming.

Therefore, it's no surprise governments around the globe are setting ambitious commitments to limit carbon emissions, which are increasingly backed by new regulations and taxes. In addition, there has been a shift in consumer attitudes in recent years. People have a greater understanding of their contribution to the planet and choose to invest in greener businesses.

It can be easy to overlook the back-office operations of a company when it comes to implementing eco-friendly initiatives. E-invoicing gives companies a simple yet powerful way of contributing to their environmental, social, and corporate governance (ESG) targets and reducing their carbon footprint.

Depending on the business size (and the number of invoices issued), companies adopting e-invoicing would gain the economic advantages of an automated system while significantly reducing their paper waste and carbon footprint. Achieving an eco-friendlier back office will work in the company's favor by catering to the eco-conscious stakeholders, employees, and customers they target.

Variations of e-invoicing and digital reporting

> A growing number of countries are putting mandatory e-invoicing requirements in place — however, they're not doing so in a standardized manner. These variations in e-invoicing requirements make international compliance at scale a nightmare for global businesses.

Types of transactions

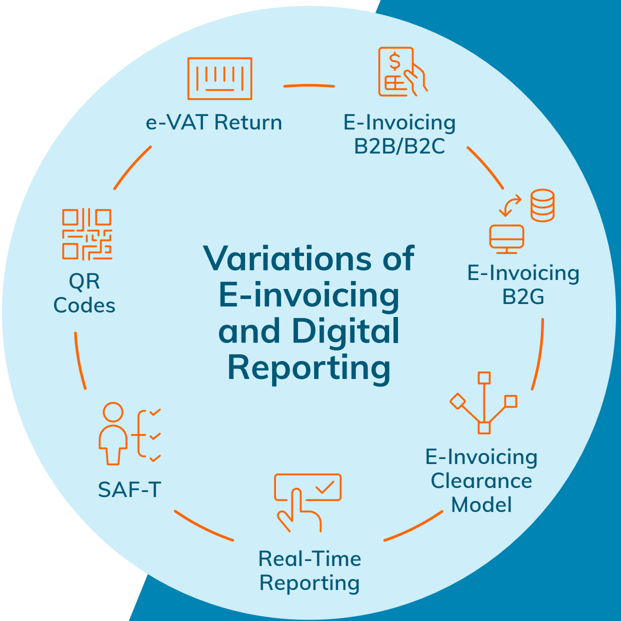
Most of the e-invoicing requirements now in place started off by targeting business-to-government (B2G) transactions. In other words, businesses must support e-invoicing to transact with government agencies in the countries where B2G e-invoicing is mandated.

Governments often push the widespread adoption of B2G e-invoicing as a first step in optimizing the public procurement process. From there, governments encourage businesses to embrace e-invoicing in business-to-business (B2B) transactions.

For example, France introduced e-invoicing mandates on B2G transactions in 2017. The next phase is to impose mandatory B2B e-invoicing and e-reporting starting in July 2024.

Other countries are taking this even further and mandating e-invoicing for every transaction, including business-to-consumer (B2C). For instance, Saudi Arabia has rolled out its e-invoicing mandate in stages covering B2G, B2B, and B2C transactions.

With every country approaching e-invoicing in its own way (and on its own trajectory), it's easy to see how cross-border compliance may be challenging for global businesses.



Two models: Post-audit vs. clearance model

There are currently two different e-invoicing models required by governments for compliance reporting.

Post audit model: In this model, business partners issue, receive, and archive invoices. Regulation requires businesses to ensure the authenticity, integrity, and legibility of these invoices for up to a decade later, similar to the requirements related to paper invoices. At the end of the tax period, the tax authorities then operate regular VAT and anti-fraud checks on company records and archived e-invoices.

The post-audit model does not require providing invoice data in structured format to the tax authority. Though this model is currently used in most European countries, more and more countries are moving toward the clearance model for e-invoicing.

Clearance model: This model involves three parties: the seller, buyer, and tax administration. Before the issue of each invoice, the supplier of the goods or service must receive authorization from the tax authorities. Prior to sending the e-invoice to the buyer, the e-invoice is registered with the tax authority that approves it. The administration is, therefore, immediately aware of the tax that's collected.

In 2019, Italy became the first European country to make the move to the clearance model. The Italian clearance model relies on an exchange server called SDI between the invoice sender and receiver. SDI records, transmits, and archives the invoices. In return, it produces follow-up information on the invoice processing end. The system manages the delivery code required on each invoice by law and inserts the VAT numbers of both parties, favoring greater transparency.

Real-time reporting

E-invoicing and real-time reporting are closely related. As e-invoices carry important data for tax collection, tax authorities in Europe, Brazil, Argentina, and China have started leveraging technology to move toward digital VAT reporting. Introducing mandatory e-invoicing establishes a mechanism for reporting business transactions (and relevant indirect tax information) at the moment of the invoice issuance. Real-time reporting enables the transfer of relevant invoice data to the tax authorities immediately.

Spain is just one example of a jurisdiction that has mandated real-time tax reporting in conjunction with e-invoicing. Currently, the Spanish tax authority (AEAT) receives transactional information from certain taxpayers through the Suministro Inmediato de Información (SII) up to four working days from the issue or receipt of an invoice.

In the future, other jurisdictions will likely follow suit. Real-time reporting paired with e-invoicing will enable tax authorities to gain unprecedented visibility into transactions while making reporting much simpler for businesses.

To learn more about e-invoicing models, watch our on-demand webinar E-invoicing and e-reporting models explained.

QR codes in e-invoicing

In some jurisdictions, businesses must include a QR (quick response) code on their invoices. For instance, Portuguese companies are required to include a QR code on all invoices as of January 2022.

The QR code acts as a single point of reference for invoices. It can contain dozens of fields that provide data about a particular invoice, or allow consumers to scan and either verify the invoice or report it to the tax authority.

The main benefit of mandating QR codes on invoices is that they can hold a lot of data using a compact graphic element. In addition, QR codes are easy to process for IT systems.

E-VAT return

Some countries, like the U.K., are rolling out initiatives that will mark the end of the VAT return as we know it. In the U.K., the initiative is known as Making Tax Digital (MTD), and its aim is for tax to go fully digital to enhance collection mechanisms while making tax administration more effective, efficient, and simpler for taxpayers. It requires VAT-registered businesses to keep digital VAT records and submit their VAT return to the U.K.'s tax authority (HMRC) using MTD-compatible software. In turn, e-invoicing will become a compliance requirement. Norway has gone a step further by introducing an e- VAT return through which data is submitted with SAF-T tax codes, replacing the legacy return.

Consequently, e-VAT amounts will be more accurate, and there will be a reduced risk of costly but avoidable mistakes. It's expected that other countries will follow similar paths.

The digitalization of the tax landscape

The digitalization of tax administration is happening at rapid speed. Not only are tax authorities seeing the benefits of using e-invoicing technology to underpin their tax collection efforts, but widespread digital transformation is paving the way for businesses to automate and optimize their AP and AR processes.

Technologies facilitating the move away from manual invoicing are already in place, such as the Peppol standard.

Peppol

At its most basic, Peppol is a set of standard rules used for the secure transfer and retrieval of electronic business documents, mainly used for activities related to e-invoicing. It consists of an extremely secure, international network that allows companies to exchange business-critical electronic documents with everyone who has registered as part of the Peppol network.

Peppol was developed as an EU standard to solve the cross-border interoperability issues in electronic procurement. It works by aligning business processes using common standards, addressing common legal issues, and developing open source technologies.

As of April 2020, all public institutions and authorities in the EU have been mandated to receive only e-invoices that meet the European e-invoicing standard, which Peppol in turn meets. The standardization makes it much easier for companies to trade throughout Europe as they no longer need to deal with disparate national systems. Even though it originated in the European Union, the Peppol network is being adopted today by organizations and governmental institutions in many other parts of the world — including Australia, New Zealand, and Singapore. Avalara is a certified Peppol service provider.

Consumer behaviors

On a broader scale, the digitalization of tax has its roots in shifting consumer attitudes. Society is now global, and a growing portion of the population are becoming digital consumers — even more true since the COVID-19 global pandemic. Though it would be foolish to state that the health crisis was the catalyst for tax authorities' digital transformation, the truth is, we've all been on the path to digital for years now — the pandemic simply accelerated that journey.

With the digital economy growing rapidly, tax authorities had little option but to reassess the way they collect tax from companies operating across borders. The globalization trend has meant that businesses can now reap the benefits of tech-driven finance departments and tax technology.

For instance, before the move to e-invoicing, tax teams were often impeded by sequential processes, as analytics couldn't happen until after a period's end when the books are closed and the tax returns are done.

The digitalization of tax and invoicing, on the other hand, empowers processes to flex as needed, allowing tax teams to respond to business needs as they occur. In other words, the free flow of (accessible and structured) data gives key insights into transactions to drive business agility and resilience.

The bottom line is that both administrations and businesses stand to gain a lot from the digitalization of tax — and e-invoicing is just the beginning of this digital tax revolution.

Futureproof your business with e-invoicing

> Getting ahead of the e-invoicing curve arms your business with increased resilience at a challenging time. As we head into the future of tax digitization, mandatory e-invoicing and e-reporting requirements are only going to become more frequent. Therefore, the early move to e-invoicing could become critical to stay compliant with the array of national regulations that administrations are imposing.

The cost of doing nothing could be detrimental to your enterprise. Not only do you risk noncompliance with regulations, you may fall by the wayside while competitors prioritize their financial transformation journeys, eliminating inefficiencies and focusing efforts on extra-value tasks.

There's more. Very often, the implementation of e-invoicing and digitization of processes in the finance department rings the bell for larger, companywide digitization and automation projects.

A significant part of an entire business process overhaul involves back-office jobs related to financial accounting and invoice processing. Deploying technology such as Robotic Process Automation (RPA) for manual tasks here can be extremely impactful, providing touchless business automation and reducing manual effort, cost, and human error. In addition, your business will likely see a ripple effect from this action.

There's no time to waste when it comes to e-invoicing. Manual invoicing is error-prone, outdated, and ineffective, and it will soon become a compliance nightmare for enterprises. A flexible e-invoicing solution that can adapt to developing requirements can help keep your organization's compliance running on autopilot, free up resources, and empower leaders to enhance the digitalization of the whole business.

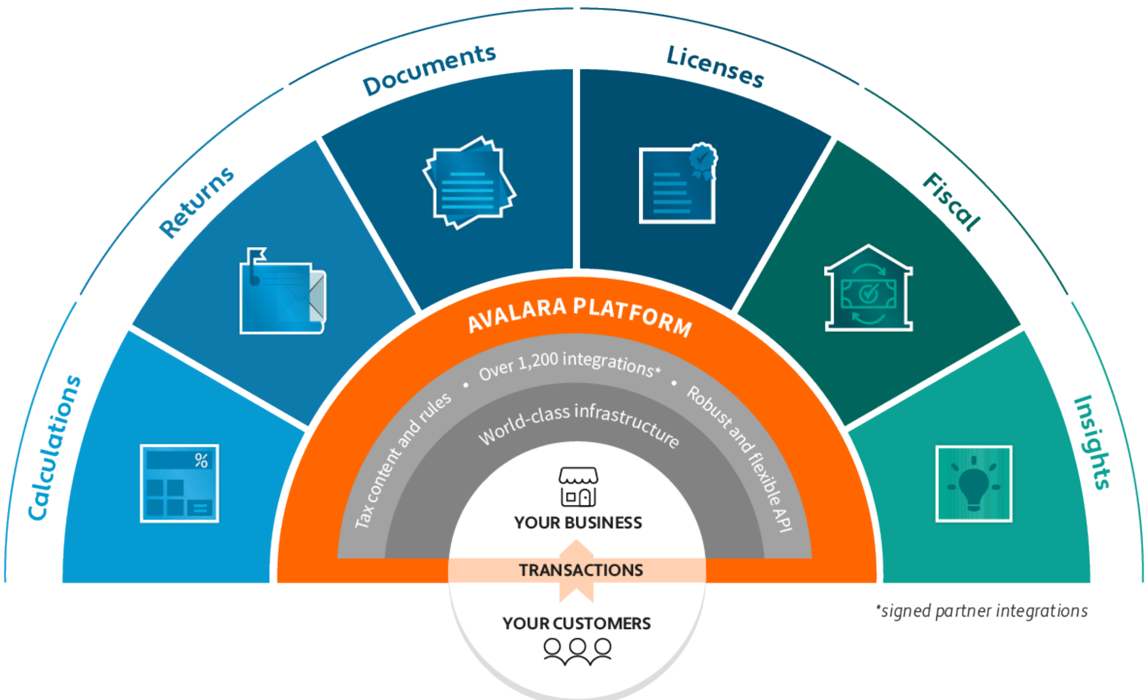
Why choose Avalara as an e-invoicing partner?

If your organization operates across multiple geographies, ensuring regulatory compliance with worldwide tax and e-invoicing mandates is going to be a challenge. Compliance in these areas is complex, fragmented, and constantly changing — and noncompliance isn't an option when the stakes are so high.

At Avalara, we make e-invoicing compliance simple. The Avalara e-Invoicing solution is compliant with local e-invoicing regulations in over 60 countries and we've got the future covered too. This cloud-based solution is flexible, global, and scalable and it allows you to quickly respond to new requirements.

Avalara is the go-to expert for business compliance software. We offer a solution designed specifically for meeting the demands of e-invoicing requirements and keeping business-critical functions running smoothly, no matter what may crop up in the future.

Don't leave compliance up to chance. Futureproof your finance department now with an automated e-invoicing solution. Contact our team for more information.



*signed partner integrations

Avalara
Tax compliance done right

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Brazil, Europe, and India.

More information at avalara.com