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Executive summary

Direct taxation is struggling to provide room for additional or new revenue—especially as we emerge from the COVID-19 pandemic—which is placing increased importance on indirect tax.

As tax authorities seek to focus more on VAT/GST compliance and tax reporting, they are harnessing advances in digital technologies to improve visibility and control. One of the key methods is mandating realtime or near realtime e-Invoicing.

Unfortunately, there has been very little standardization of models, platforms or technologies used in national governments’ e-Invoicing compliance regimes.

Despite signs that the European Union might encourage harmonization,1 today each government e-Invoicing obligation is unique. Companies are faced with a massive and complex “patchwork quilt” of compliance requirements that change geography to geography, market to market.

This guide outlines the current state of global e-Invoicing mandates and what organizations across the globe can do to prepare for e-Invoicing compliance today and into the future.

1 OpenText, January 2023 e-Invoicing & VAT compliance updates. (2023)
The global landscape for e-Invoicing compliance

More than 80 countries worldwide have e-Invoicing mandates and a further 50 have announced their intention to impose new or additional mandates (See Figure 1). The expectation is that by 2030, the majority of the world's 200 VAT regimes will have mandatory continuous transaction controls in place around the invoice.

Figure 1: e-Invoicing compliance timeline (Source: PWC)

Europe/EU

The 2014 Public Procurement directive\(^2\) required all EU member states to mandate that government agencies be “e-Invoicing-ready,” i.e. to have the capability to receive electronic invoices from suppliers. Several EU countries took a step beyond and forced suppliers to issue e-Invoices for all business to government (B2G) supplies.

As a CTC approach (see sidebar) supersedes the post-audit model, early B2G mandates are now being joined by business to business (B2B) equivalents. Turkey and Italy have mature mandates for B2B electronic invoicing and France, Germany, Spain, Belgium and Poland are implementing mandates.

Little standardization has been seen around e-Invoicing mandates, as few countries are implementing common standards like PEPPOL. Some countries focusing on e-reporting as a means of combining e-Invoicing with other tax documentation and transactional data have adopted SAF-T (Standard Audit File for Tax).

Latin America

Mexico and Brazil were the pioneers in mandatory realtime clearance e-Invoicing, and their approach has rapidly become the standard for electronic invoicing in the region. Country-wide mandates have since been implemented in Argentina, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras and Peru amongst others.

For many Latin American countries, tax regimes have begun to include the likes of transportation documents, payroll and others to gain a wider view of taxation processes.

North America

Canada has a VAT regime, but tax fraud is low. The United States has no VAT regime. In both countries therefore, regulations are minimal. Despite the lack of regulatory obstacles and the many potential benefits, voluntary take-up of e-Invoicing amongst private companies has been slow. The OMB (Office of Management and Budget) has expressed an interest in B2G e-Invoicing, and the Federal Reserve launched an initiative under the “Business Payments Coalition” to define a technical invoicing standard and interoperability framework to fit the U.S. market. The model defined is an open e-Invoicing framework based loosely on the PEPPOL approach without major requirements or obstacles imposed by law.

While e-Invoicing mandates may not be directly relevant to many U.S. businesses, since they apply only to domestic e-Invoices, those with operations overseas in VAT regimes must still take note.

Additionally, businesses in the U.S. still stand to benefit from significant cost savings and operational efficiencies by switching to fully automated electronic invoicing.

Asia Pacific

E-Invoicing is relatively immature in this region and early moves to impose mandates have led to a fragmented and diverse landscape. There is a split between countries like India, Taiwan and Russia preferring the Latin American clearance model versus those with a more laid back post-audit approach with more open e-Invoicing frameworks, such as Hong Kong, Japan, Singapore, Australia and New Zealand.

Singapore, Australia and New Zealand have adopted the PEPPOL framework for B2G e-Invoicing. These are once again “soft mandates,” reminiscent of those implemented in much of Europe. Government agencies must be ready to receive e-Invoices, but suppliers are not mandated to issue their invoices electronically.

Keep up to date with the current status of global e-Invoicing mandates by subscribing to the OpenText e-Invoicing Newsletter.

Slow standardization, poor harmonization

While there are moves towards standardization, such as PEPPOL and SAF-T, progress has been slow, patchy and mostly regional. Individual countries continue to mandate the e-Invoicing system they consider most appropriate for their own tax requirements.

As B2G mandates are joined by B2B mandates, many countries are introducing new platforms to handle B2B transactions and it is widely expected that the CTC platform selected will be driven by national legal and tax frameworks rather than technical or data standards.

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3 Business Payments Coalition – electronic invoicing initiative
4 DBNA Alliance, Digital Business Networks Alliance exchange framework
This proliferation of mandates only increases complexity for organizations—especially those trading in multiple jurisdictions and cross-border. Even where there is a slow move towards standardization, it is open to each country to decide how it implements the standard, leading to numerous variants. Almost every country and region stipulates different e-Invoicing formats and standards—technical, industry and regulatory (see diagram below).

The result of this complexity is that e-Invoicing must be viewed very much as an integration challenge. Integration is typically not a core competency in most organizations, leading to growing interest in working with a global service provider. A B2B network consisting of many pre-connected buyers and suppliers, as well as these government-mandated portals, can support implementation of e-Invoicing regulations in each territory worldwide.

A world of mandates, formats and standards

The shifting sands of global e-Invoicing compliance

E-Invoicing developed slowly in most parts of the world due to concerns about the ease with which digital data could be changed to serve tax fraud. As technology has improved, e-Invoicing has evolved. Early e-Invoicing was little more than a digital representation of the paper-based post-audit model, and due to the perceived complexity/cost of implementing e-Invoicing, take-up has been slow.

Application vendors have also interpreted the electronic invoicing regulations in the ways that suited them best, resulting in many approaches.

The switch to clearance and CTC mandates

While Europe was implementing optional e-Invoicing following the post-audit model, elsewhere, other countries were taking things a step further.

European tax agencies were primarily concerned with not imposing too many rigorous controls on businesses and sought to simply accommodate the desire of larger enterprises to automate their inefficient invoice processes.

However, the biggest problem facing many tax agencies has been the VAT gap. While some of this shortfall occurs through innocent errors, much of it is due to tax evasion and fraud.
Tectonic shifts in Latin America
In 2011, Mexico became the first country to mandate e-Invoicing. Regardless of size/technical capability, all taxpayers were obliged to submit and receive e-Invoices to the tax authority in near real time.

The benefits to tax agencies were clear—instant visibility into all VAT-relevant transactions and a massive reduction in tax fraud.

Other Latin American countries like Brazil quickly followed suit and saw similar results in reducing their VAT gap and combating tax fraud.

This generated a veritable tsunami of e-Invoicing mandates, which first spread across Latin America, and then across the Atlantic, arriving first at Turkey, before neighboring Italy took note.

The LatAm e-Invoicing wave hits European shores
Italy was facing one of the largest VAT gaps, so it was no surprise when it became the first country to implement mandatory e-Invoicing. Since then, France, Germany, Poland, Belgium, Spain and others have announced their intent to follow suit.

Outside of Europe, many countries have also begun implementing CTC mandates.

Living “La ViDA loca”
In December 2022, the European Commission announced a series of measures to modernize VAT across the European Union through the ViDA report. ViDA proposes several measures to ensure efficient collection of VAT while simplifying administrative processes for businesses, and one of the key pillars is mandatory CTC e-Invoicing/e-reporting across the region by 2028.

The ViDA report explains that switching to electronic invoicing will help reduce VAT fraud by up to €11 billion per year over the next 10 years.

While the proposal would enforce mandatory e-Invoicing/e-reporting across all member states by Jan. 1, 2028, some initial changes proposed for Jan. 1, 2024 will have radical implications for all businesses operating in the EU.

The first change is to redefine an electronic invoice as ONLY a structured data file. PDF based invoices, which today represent most “electronic” invoices, will no longer legally be considered e-Invoices.

The second change is to remove article 232 of the VAT directive, which requires buyer acceptance of electronic invoices. It is this article which requires countries to apply for special derogation from the European Commission in order to mandate e-Invoicing, since the proposal of an e-Invoicing mandate effectively forces buyers to accept electronic invoices.

There are two key implications for all companies trading in the EU.
First, once the proposed amendments are enacted in law, they must be ready and able to accept structured e-Invoices from any of their suppliers.

It also means they will be able to extend their investment in e-Invoicing to issue all of their own invoices electronically to any of their buyers across the EU, since their customers will no longer be able to refuse to accept an invoice if it is provided in structured electronic format.

5. European Commission, VAT in the Digital Age report
e-Invoicing mandates

Lack of harmonization

e-Invoicing mandates for B2G and B2B now span more than 80 countries with different models, connectivity requirements and invoice formats.

<table>
<thead>
<tr>
<th>Country</th>
<th>Portal</th>
<th>E-Invoice Format(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>PPF</td>
<td>UBL/CII/Factur-X</td>
</tr>
<tr>
<td>Italy</td>
<td>Sdi</td>
<td>FatturaPA</td>
</tr>
<tr>
<td>Poland</td>
<td>KSeF</td>
<td>FA_VAT</td>
</tr>
<tr>
<td>Belgium</td>
<td>PEPPOL</td>
<td>UBL</td>
</tr>
<tr>
<td>Spain</td>
<td>FAcE</td>
<td>FacturaE</td>
</tr>
<tr>
<td>Turkey</td>
<td>GIB portal</td>
<td>UBL-TR</td>
</tr>
<tr>
<td>Mexico</td>
<td>SAT via PAC*</td>
<td>CFDI</td>
</tr>
<tr>
<td>Brazil</td>
<td>SEFAZ</td>
<td>NF-e / NF-se</td>
</tr>
</tbody>
</table>

* Authorized Certification Provider

Fragmentation in national CTC mandates across the EU

While the ViDA report intends to provide a degree of harmonization in the future, national e-Invoicing approaches are currently fragmented.

For example, the Italian model looks similar to some Latin American clearance models, with a single, central government portal to which all suppliers must connect to deliver their invoices. A single invoice format is permitted and invoices are checked and approved as a form of clearance. Italy goes further than many Latin American systems, with its portal managing the onward delivery of each invoice to its recipient.

The Polish model is similar to that in Italy with a central portal, KSeF, and its own XML invoice format. However, unlike Italy it is not considered a clearance model since the invoice is not checked for business/tax data. Nor does it manage invoice delivery.

France has taken its B2G e-Invoicing platform and adapted it to become its public portal (PPF), but unlike both Poland and Italy, three invoice formats can be accepted, UBL, CII and Factur-X. Further, while companies can send/receive e-Invoices directly through the PPF, France has borrowed from the Mexican model and established the concept of certified private network providers—PDP’s—who are able to exchange invoices directly in an interoperable manner.

OpenText is one of only a few vendors applying for this certification and will be able to offer a comprehensive service in France.

Global e-Invoicing compliance: The Brazilian experience

Imposing e-Invoicing mandates has proved very successful for governments worldwide. Brazil reported that it had increased its tax revenue by $58 billion in a single year after mandating electronic invoicing.9

Brazil is also an excellent example of the way the granular transactional information extracted from e-Invoices, e-reporting, e-accounting and other documents can be used as an economic policy driver. In fact, during the height of the pandemic, the Brazilian government used e-Invoice data to identify areas where sales were falling to target financial relief efforts.10

However, e-Invoicing should ideally provide ongoing benefits for both the governments and companies involved. This goes beyond the benefits of e-Invoicing itself to include the imposition of best practices. Mandates create a requirement for good systems and processes and help ensure data quality in real time. Close collaboration between buyers and suppliers strengthens and deepens the relationship.

Smaller firms In Peru that transact with partners invoicing electronically reported 11% more sales and paid 17% more VAT.11

No one appears to mind paying extra sales tax when it comes with extra sales.
Global invoicing compliance: The carrot and the stick

While adopting electronic invoicing clearly provides efficiencies that lead to cost savings and cashflow—a juicy carrot for those adopting e-Invoicing, there's also a very large stick. Non-compliance with regulations comes with the potential of significant business and financial harm including:

- **Administrative fines**
  While fines vary between countries, organizations can face up to €2,000 or more per invoice in some EU states. Trading partners drawn into an audit can also be penalized.

- **Legal sanctions**
  Non-compliance can be equated with tax evasion, making organizations liable to sanctions under both tax and criminal law.

- **Loss of VAT rights**
  Companies unable to provide evidence of purchases may have to pay back input VAT, possibly more than their initial profit margin.

- **Trading partner audits**
  If a tax authority audits and verifies activities of trading partners, the business relationship may become strained.

- **Geographical mutual assistance procedures**
  Auditors may cause investigations in other countries as they dig, taking up more time and increasing potential exposure.

- **Protracted audits**
  Audits can consume expert resources for weeks or even months and possibly spawn additional investigations.

Fully one quarter of the companies surveyed by IDG confessed to having experienced one or more of these impacts arising from non-compliance in the past 12 months, with government audits and tax fraud being the most common.12

**e-Invoicing: The wider context**

Tax authorities are looking to extend their mandates to cover documents and data related to VAT-relevant transactions, such as orders, credit/debit notes, shipping and delivery notes, ledgers and other accounting documents.

In Mexico, for example, payroll transactions must be cleared in the same way as invoices. Other countries, including Chile, Argentina and Colombia, have extended the information required beyond invoice details to cover other data around the transaction, such as any factoring arrangements.

As technologies and platforms mature and improve, it is highly likely that the breadth and depth of tax and finance data required will continue to grow.

This is leading to what has been termed the “death of the VAT return.” Applying mostly to Europe, governments are taking advantage of the potential in the SAF-T and other digital technologies to incorporate e-Invoicing with other capabilities such as e-auditing, e-reporting and e-archiving. This enables them to acquire all the information they need to automate much of the tax reporting and retrieval process.

12 IDG/OpenText, e-Invoicing Market Pulse Survey (2022)
Poland has already removed the need for a VAT return, and the UK’s Making Tax Digital initiative is following suit. Others will undoubtedly take heed. The benefits for both the tax authority and the company are clear.

This adds another factor that organizations must consider when developing their compliant e-Invoicing solution. Integration goes further than meeting the digital invoicing requirements of individual jurisdictions. It requires the ability to integrate different document and data types into a single, coherent submission for the tax authority.

**The need for a single global e-Invoicing provider**

While the potential cost savings and gains in process efficiency from digitizing and automating seem clear, resistance to adoption remains. According to survey results, the most cited challenges were technical concerns, including data security (54%), integration of internal systems (45%), cost of implementation (39%) and overall complexity of technology (39%).

This confirms that e-Invoicing is an integration challenge, one that is best addressed at the “edge” of your business, where you connect your internal applications to your external partners.

The internal shifting landscape of siloed applications, combined with external pressures from different regional mandates, creates genuine concerns for businesses. Analysts Billentis stated that multinational companies are leveraging, on average, between three and 20 service providers dealing with their inbound electronic invoices, and between 20 and 160 service providers for outbound electronic invoicing and electronic reporting.

It’s no surprise that research shows 84 percent of companies would find it valuable to have a single global partner to overcome e-Invoicing challenges. Companies had a long list of capabilities they expected from this partner, such as integration and onboarding expertise (86%), delivered in a cloud-based environment (84%) which has built-in data security (85%) and offering contractual assurances of compliance (75%).

According to Billentis, the number of vendors acting as electronic invoicing service providers is now approaching 2,000 globally.

The solutions offered by these vendors fall into different high-level categories, such as enterprise software (on-premises), services/SaaS/cloud solutions, or niche applications. which are typically complementary to broader solutions but provide limited scope.

ERP vendors, supply chain automation suites, selling and fulfillment (sales order management), P2P suites/e-Procurement (Sourcing/Spend), accounts payable, accounts receivable, document capture/automation (OCR), tax compliance, supply chain finance, payments/financial services, and BPO (business process outsourcing)...the list goes on. All of these solution classes only offer a partial solution to the many and varied e-Invoicing challenges.

While the focus of these solutions is different, when it comes to the electronic invoice process, they all provide similar functionality. Unfortunately, they effectively duplicate cost and add complexity in terms of technical deployment, support, compliance maintenance and archive for tax audit purposes.

13 IDG / OpenText, e-Invoicing Market Pulse Survey. (2022)
14 Billentis, The e-Invoicing Journey 2019-2025
15 IDG / OpenText, e-Invoicing Market Pulse Survey. (2022)
16 Billentis. The e-Invoicing Journey 2019-2025
As we can see from the IDG survey results—e-Invoicing is fundamentally an integration challenge. And the only class of solutions able to address those challenges, while remaining agnostic to the invoice process (AP/AR/direct materials/indirect materials), would be a B2B integration solution.

As the market leader in B2B integration globally, OpenText is uniquely positioned to solve the e-Invoicing problem. The OpenText approach to B2B integration offers scalability and flexibility to clients, with solutions for businesses from SMEs (OpenText™ Business Network Cloud Foundation) up to the largest enterprises (OpenText™ Business Network Cloud Enterprise).

The e-Invoicing solution is delivered as a unified, cloud-based enterprise platform, OpenText™ Active Invoices with Compliance, which embeds e-Invoicing capabilities into the B2B platform. This platform can immediately connect companies to an existing global community of customers, suppliers and other supply chain partners with tried and tested integrations. Companies can switch from unsecured and risky email/PDF-based invoice processes to fully automated e-Invoicing.

This meets data security requirements while enabling closer collaboration with supply chain partners.

In addition to invoices, the OpenText platform enables businesses to also exchange their related business documents over the platform to meet industry standards and comply with local regulations and government mandates.

The platform accommodates any document format, technology standard or communication protocol to be able to automatically deliver outbound receivables e-Invoices as well as supporting inbound accounts payable flows. It remains agnostic to the invoice format and process, for example, direct materials and indirect materials. It includes both self-service and full-service community management options to get maximum participation in e-Invoicing from trading partners and deliver a rapid return on investment. Optional analytics services can ensure that e-Invoicing plays an integrated role in the improvement of finance and supply chain processes.

It reduces the costs and risks associated with manual invoice processes and siloed point solutions while enhancing cashflow through reduction of days sales outstanding. Late payment penalties are reduced and companies gain increased access to early payment discounts, so a global electronic invoicing platform delivers a rapid return on investment that pays for itself.

Designed with the needs of global multinationals in mind, Active Invoices with Compliance provides companies with a single, global enterprise e-Invoicing platform backed by expert services to facilitate trading with a community of partners and suppliers worldwide.

16 Indirect materials – i.e. goods not for resale (GNFR)
It can:

- Consolidate point solutions onto a central platform.
- Complement, rather than compete with, existing ERP, e-Procurement, AP and AR solutions.
- Quickly onboard and begin trading with new and existing suppliers.
- Accommodate existing global, regional and country regulatory and tax requirements while monitoring for, adapting to and introducing new requirements.
- Handle the complexity of e-Invoicing standards, protocols, technologies and platforms.
- Trade electronically with 100 percent of a trading partner community.
- Take full advantage of the power, scalability, security and performance of the cloud.
- Implement a secure digital archiving system to ensure compliance and facilitate auditing.

Global e-Invoicing mandates are coming—and will increasingly become the “new normal” in value added tax regimes. Learn more about how Active Invoices with Compliance can help meet current and future e-Invoicing mandates while extending your investment in e-Invoicing across your global trading partner community.

About OpenText

OpenText, The Information Company, enables organizations to gain insight through market leading information management solutions, on-premises or in the cloud. For more information about OpenText (NASDAQ: OTEX, TSX: OTEX) visit: opentext.com.

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