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# The CFO's Guide to Mandatory e-Invoicing and VAT Compliance in Europe

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## Introduction

Electronic invoicing has moved swiftly from niche to normal over the last decade. Lessons from the pandemic lockdowns have accelerated adoption further – electronic invoices didn't require mailroom and AP staff to be in the office to receive, process, and pay invoices on time.

The benefits of e-invoices have even caught the attention of tax authorities. Early adopters have shown the positive impact e-invoicing can have on tax collection, such as the 48% increase in revenue from tax on goods and services after Mexico made e-invoicing mandatory in 2014[1].

More recently, EU VAT Directive reform has driven the adoption of electronic invoices across Europe, leading to e-invoicing becoming mandatory for business-to-government (B2G) transactions since April 2020. In some countries, such as Italy, it is also a requirement for B2B transactions, too.

Despite best efforts to harmonise e-invoicing through the introduction of the EU Norm, it is fair to say that businesses selling across Europe need to comply with a growing number of e-invoice formats and delivery/receipt portals for tax purposes.

The delivery of electronic invoices and associated reporting places an onus on businesses to invest in the expertise and technology to make this possible, and keep these up-to-date with changing requirements.

This guide outlines some of the key considerations to ensure you comply with e-invoicing and associated tax reporting requirements across Europe, and how Corcentric can simplify this process, helping you reduce costs and recruitment needs, and improve cash flow.

## Closing the VAT Gap

Tax authorities the world over struggle to bring in VAT revenues that match the value calculated due each year, a difference known as the VAT Gap. According to the 2021 Report[2] on the VAT Gap released by the European Commission, this gap amounted to €134 billion for EU member states in 2019.

The VAT Gap provides an estimate of the VAT revenue loss due to tax fraud, tax evasion, tax avoidance and optimisation practices, bankruptcies, financial insolvencies, as well as miscalculations and administrative errors.

Digitalisation of VAT reporting and the introduction of continuous transaction controls (CTC), such as real-time reporting, or requiring invoices to be delivered via a centralised system (e.g. the SdI system in Italy) is seen by tax authorities as a way to reduce both intentional and accidental reasons for incorrect VAT reporting and payment.

## EU Directives

The acceptance, and definition, of electronic invoicing across Europe has been driven by EU Directives, which are then enshrined in law by each member state. Regional differences in interpretation of the directives have led to a variety of different e-invoicing platforms, delivery and processing requirements across Europe that make cross-border invoicing so complex.

**EU Directive 2006/112/EC**

IIt is perhaps appropriate to first consider directive 2006/112/EU, which set out to harmonise VAT processes across Europe. This was the first time

an EU directive set electronic invoicing on the same legal footing as paper invoicing.

Crucially, this directive included the statement "The use of an electronic invoice shall be subject to acceptance by the recipient." There was also no definition of exactly what an e-invoice was, beyond an invoice that contains the information required in this Directive, and which has been issued and received in any electronic format.

**EU Directive 2010/45/EU**

Directive 2010/45/EU concerns the rules on invoicing as applied to the common system of VAT which was set out in 2006/112/EC. The directive made it clear that electronic invoices could be preserved as electronic files, rather than requiring paper copies to be made and stored for legal purposes. Additionally, this directive set out mechanisms to ensure the authenticity and integrity of e-invoices, such as EDI and advanced electronic signatures.

**EU Directive 2014/55/EU**

The most important EU directive concerning e-invoicing and, by extension, the ramifications for VAT declarations, is without a doubt 2014/55/EU. This directive was issued in 2014 and gave member states until 27th November 2018 before electronic invoicing was mandatory for public sector procurement.

The aim of this change was to vastly improve efficiency within public administrations. Indeed, there were estimated savings[3] of €2.3bn at the time.

This directive was responsible for defining what the EU considered to be an electronic invoice – notably this had to be, or include, a structured data component such as XML or EDI, rather than allowing traditional paper invoices to be digitised and sent electronically (e.g., as PDFs attached to emails).

The directive also set out harmonise the standards used in electronic invoicing, to improve interoperability and promote cross-border transaction efficiency. The concept of the *European standard on electronic invoicing* was born, based on existing technical specifications developed within the framework of European standardisation organisations, such as CEN, as well as taking into account UN/CEFACT specifications and ISO 20022 methodology.

Although this directive targeted only public sector procurement, the ramifications were far-reaching. With a significant percentage of any European country's businesses selling into the public sector, this was to drive uptake of e-invoicing beyond the public sector and inspired some countries to make electronic invoicing mandatory for B2B transactions, too.

## Mandatory B2G e-invoicing

From the publication of EU Directive 2014/55/EU in 2014, EU member states were given notice of mandatory B2G e-invoicing. By 27th November 2018, this was enshrined in law by all member states. Adherence to the European Norm[4] (EN) 16931 on e-invoicing has resulted in similarities between each member state's invoicing standards – typically XML formatting, and many include adherence to PEPPOL BIS 3.0 in their standards.

You can find out more about specific requirements for EU countries in the Corcentric guide to Mandatory e-invoicing for the EU Public Sector.

## The Start of Mandatory B2B e-invoicing

Italy was the first European country to mandate e-invoicing for B2B transactions, at odds with the EU VAT Directive (2010/45), which clearly states that a buyer must agree to exchanging e-invoices and should have the freedom to choose a document format. From January 2019, the Italian government's regulations forced e-invoicing on businesses without an opt-out, which was in violation of that original principle.

However, Italy's approach was approved by the EU Commission allowing a derogation from the EU VAT Directive. Other EU countries taking a similar path, to mandate B2B e-invoicing, must apply for a similar derogation to enshrine mandatory B2B e-invoicing in their laws.

As a result of mandatory e-invoicing, via the centralised SdI clearing system, Italy increased tax revenue by €3.5 billion in 2019. Of this, €2 billion came from additional VAT revenue, €945 million from the detection of fraudulent input tax credit, and €580 million came from direct taxation[5]. These figures present a compelling argument for other European countries to follow suit. Consequently, many other EU countries are rolling out, or plan to roll out, mandatory B2B e-invoicing in the near future.

## Mandatory B2B e-invoicing from 2022-2025

The list of European countries moving to mandatory B2B electronic invoicing is growing year-on-year. The list below highlights the status of the main regions which have embraced this paradigm already, or have plans to do so before 2025.

**Italy**

It is a mandatory requirement for all B2B invoices to be issued electronically through the Sistema di Intercambio (SdI) system. This allows the Italian Revenue Agency to automatically collect details of all e-invoices — *before* they are even sent to customers — enabling them to accurately calculate the tax due on payment of each invoice. The number of e-invoices sent to the Exchange System is approximately 30 million per year[6].

The Italian e-invoice format is an XML format called FatturaPA.

**France**

As part of the Ordinance n°2021-1190 of 15 September 2021[7], there is an obligation to send e-reporting information on Business-to-Consumer (B2C) sales, international B2B sales, Intra-EU supply information, and payment information for invoices or sales where the tax point date (VAT eligibility) is on payment. These obligations come into force via the following tiers:

- Starting on 1 July 2024 for large companies
- At the latest on 1 January 2025 for medium-size companies
- At the latest on 1 January 2026 for all companies

E-Invoices must be sent via the Chorus Pro platform[8], which also allows cross-border receiving and processing of e-invoices from non-domestic suppliers (thanks to its connection to PEPPOL) and allows archiving of the e-invoices processed via the platform.

Chorus Pro uses CII with Factur-X, the Franco-German standard for hybrid electronic invoicing (named ZUGFeRD in Germany).

**Germany**

B2B e-invoicing is not currently mandatory (as of 2022) in Germany. However, the new government plans to change this very soon.

Even before the coalition government was sworn in (December 2021), they had issued a governing agreement document including the following paragraph on introducing as soon as possible "... an electronic reporting system nationwide, which will be used for the creation, verification and forwarding of invoices. In this way, we will significantly reduce the susceptibility to fraud of our VAT system and modernise and at the same time reduce the bureaucracy of the interface between the administration and the businesses."

The German government has expressed their intention to adopt a model similar to the SdI model in use in

Italy, or the planned French model. It is therefore likely that Germany will adopt a *clearance* system, where taxpayers send their invoices through a centralised platform, the tax authorities then validate them, in real time, before sending them to the receiver.

**Greece**

Since November 2021, electronic invoicing has been mandatory for B2B transactions in Greece. Invoices are sent compliant with PEPPOL BIS Billing 3.0.

MyDATA is the platform[9] in charge of receiving all the summary of e-invoices for B2B and B2G transactions. On this platform, the Greek authorities can process all the data and then create financial reports for each taxpayer in Greece. This has been instrumental in tackling Greece's estimated 30% original shortfall in VAT payments, down to 25.6% in 2019[10] and falling further still as time moves on.

**Spain**

On 8 July 2022, the Spanish government published new proposals to the "Ley Crea y Crece" draft law[11] and provided more details on the new e-invoicing law that will affect private entities in Spain.

Once the draft law gets published in the State Official Bulletin, large taxpayers (with annual revenue of more than EUR 8 million) will have one year to adapt their workflows to issue, exchange, and receive e-invoices. Smaller businesses will have two years to implement similar changes.

Electronic invoices in B2B will be expected to comply with the Facturae (XML based) national standard[12], used in association with an eSignature following the XAdES standard.

FACeB2B is a government platform[13] (available since June 2018) used to facilitate B2B electronic invoicing. It is provided free of charge for any business, and it uses the same format and interfaces Spain already has in place for B2G invoicing.

**Hungary**

Hungary has followed Italy, introducing a clearing model based on e-invoicing at the start of 2021. As of April 2021, it is mandatory for all taxpayers to use the new "NAV Online 3.0" for invoicing. Companies report XML files to the Hungarian Tax Authority (NAV), which are then made available to customers as electronic invoices, recording VAT due as part of the process.

The format required for sending e-invoice data is XML, fully compliant with the European Standard.

Additionally, businesses should have their systems ready to send standard audit files (SAF) when required by the tax authority. This information will include (i) general accounting, customers, suppliers and VAT, (ii) accounts receivable and (iii) accounts payable data.

**Poland**

Poland has raced to beat France to the implementation of mandatory B2B e-invoicing. The next step is through a derogation of the VAT directive to allow all transactions for which an invoice issued under Polish VAT law must be processed via the national system for electronic invoicing (Polish: Krajowy System e-Faktur – KSeF).

On 17th June 2022, the Council of the European Union agreed to make electronic invoicing mandatory in Poland from January 1, 2024. Find all the details on the website of the Polish Ministry of Finance[14].

Companies that wish to send invoices electronically ahead of this deadline can use the national KSeF platform, which has been available for voluntary use since January 2022.

Poland has already made significant progress in combating VAT fraud[15] by employing SAF-T files (known in Poland as JPKs) and the fraud flagging system STIR to enable electronic VAT reporting, even including for data from electronic cash registers, over the past few years. Taxpayers are required to submit SAF-T reports to the Polish Tax Authority on a monthly

basis. However, SAF-T reporting is not in real-time. Furthermore, SAF-T reporting does not automate sending and processing invoices as efficiently for businesses as electronic invoicing based on XML-e-invoices does.

Electronic invoices need to be PEPPOL BIS Billing 3.0 compliant.

**Turkey**

B2B e-invoicing is mandatory for all but the smallest of transactions in Turkey, as of January 2020. However, the type of e-invoice is dependent on whether the business has registered with the Turkish Revenue Administration (TRA), in which case they issue invoices as e-Fatura format. Alternatively, for businesses not registered with the TRA, invoices are issued via the e-arşiv platform.

Once authorized by the TRA companies must report invoices in UBL-TR 1.2 format

The TRA expanded the e-transformation practices both in terms of application and taxpayers in scope with the General Communique issued on 19 October 2019. Within this context, using the e-invoice system and e-arşiv, e-invoices became mandatory for businesses with a year-end turnover of TRY 5 million (£229,000) and above.

Businesses with gross sales revenue above TRY 5 million (£229,000) in 2020 had to switch to the e-arşiv invoice system before July 2021.

Since January 2020, Businesses have had to issue e-arşiv invoices through the TRA's portal if the total amount of an invoice issued to non-registered taxpayers, including taxes, exceeds TRY 30,000 (£1,375), or if the total amount of an invoice issued to taxpayers, including taxes, exceeds TRY 5,000 (£229).

**The United Kingdom**

B2B electronic invoicing is not mandatory in the UK yet, and there are no indications it will be before 2025. If you send electronic invoices, they must contain the same information as paper invoices. You can find general information about VAT invoices in section 16.3.1 of VAT guide (Notice 700)[16].

There are additional rules about the content of your invoices if you are making supplies to the EU. You can find these in paragraph 16.16 of VAT and the single market (Notice 725)[17].

Despite the lack of mandatory B2B e-invoicing, all VAT-registered businesses are required to follow the *Making Tax Digital* rules by keeping digital records and using software to submit their VAT returns electronically.

## CTCs and VAT Compliance

Continuous transaction controls (CTC) are a set of processes that enable law enforcement agencies, such as tax administrations, to view real-time or near real-time financial data relating to business activity in their countries.

Unlike previous methods of tracking tax owed from transactions, this data is obtained directly from business transaction processes or data management systems.

Transaction data must be submitted to a tax authority platform before, during, or immediately after the supplier sends each invoice to a buyer. Clearance models are the strictest implementation of CTCs, requiring transaction data to be *cleared* by the tax authority before the corresponding invoice can be sent to the buyer.

Continuous transaction controls are either *centralized*, requiring suppliers to send e-invoices through a centralized tax authority system, or *decentralized*, where suppliers are allowed to e-invoice buyers directly, but must simultaneously send reporting data to the tax authority.

## Staying Compliant

This growth in the variety of mandatory e-invoicing

standards and associated CTCs for VAT compliance places a burden on businesses who sell across the EU. As a CFO wanting to invest in growth, the need for ongoing investment in systems and staff to meet compliance requirements is an unwelcome additional cost and responsibility of doing business in Europe.

This burden is further compounded by staffing challenges in accounts receivable and the cost of customising ERP systems to format and deliver invoices to different portals as needed, on top of individual customer needs for payment timing and modalities.

In response to these complexities, many finance departments face the prospect of making significant investments in technology and staff to manage this. However, these investments can lead to an increasingly complex network of point solutions integrated with legacy software and proprietary working knowledge.

There is a better way, though...

## Corcentric MAR

Instead of tackling each compliance requirement one-by-one, Corcentric Managed Accounts Receivable (MAR) can work as an extension of your business to take output from your ERP system(s) to deliver invoices exactly as needed — wherever they need to be sent in Europe.

Corcentric MAR is a technology-enabled managed service, meaning you benefit from the latest technology without the need for time-consuming and expensive implementation and integration work, or the requisite user adoption. Corcentric's managed service team ensures ongoing regulatory compliance and white glove service delivery to reduce complexity and improve scalability.

Furthermore, Corcentric MAR ensures guaranteed invoice payments within the payment timeframe of your choosing. This guarantee is fully funded and non-recourse, providing complete cash flow confidence by eliminating the potential for bad debt. By shortening payment timeframes and fixing DSO to a lower level, you can apply the liberated working capital to strategic initiatives sooner – without any need for capital outlay, recruitment, or development work to make this happen.

You can find out more about Corcentric MAR here.

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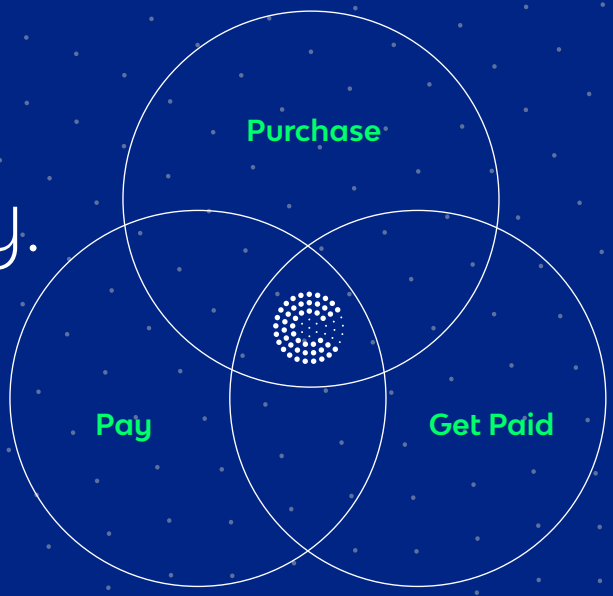


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