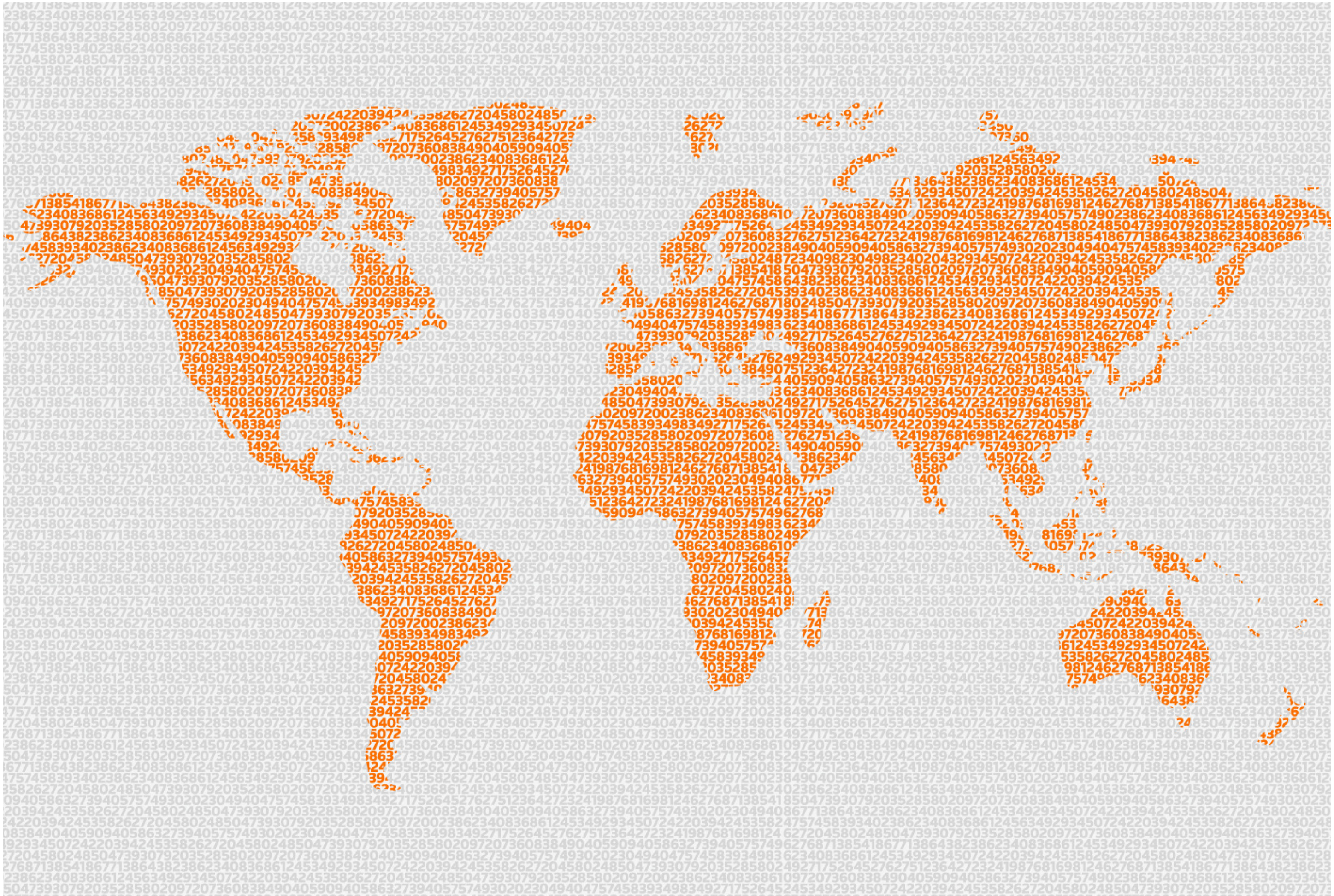

E-invoicing compliance: A world of complex challenges for global organizations

White paper

E-invoicing compliance: A world of complex challenges for global organizations

Global indirect tax (IDT) teams operate under two primary principles: ensure tax liabilities are paid accurately and on time and reported to tax authorities according to their specific rules and regulations. In practice, compliance is increasingly complex for indirect tax teams. As governments around the world digitalize their tax infrastructures and more restrictive regulations push companies to report tax data in real-time, tax departments have little choice but to automate some or all of their IDT processes to keep up with the pace of change and avoid falling out of compliance.

However, the rules and regulations governing taxes aren't the only changes affecting tax professionals. The technology and tools needed to respond to new global reporting obligations are evolving as well, and at an accelerated pace, globally. Not all systems have the capabilities necessary to meet a dynamic global organization's changing needs.

What compliance challenges are global organizations facing? And what technological capabilities are they likely to need in the coming years? This report attempts to answer some of those questions so that executives and tax leaders can make informed decisions about how best to address the pressing IDT challenges their organizations are up against in the emerging world of real-time digital tax reporting.

The rise of real-time reporting

Until a few years ago, compliance teams lived in a post-audit world where they would be required to report taxes monthly, quarterly, or yearly. Tax teams managed their compliance operations with enough time to gather and reconcile data for reporting value-added taxes (VAT), goods and services taxes (GST), and sales and use (S&U) taxes. Moreover, reporting regulations were more consistent, and global supply chains were more dependable. Taxes, typically reported after transactions have taken place, monthly, quarterly, and annually, allowed businesses to keep sales and purchases in motion and provide after-the-fact information to tax authorities. That world is rapidly disappearing.

Since 2018, governments everywhere have been aggressively pursuing policies to ensure they receive their fair share of tax revenue. These policies, part of a broader movement to prevent fraud and tax evasion, offer governments greater transparency into all transactions and associated taxes. Governments are demanding organizations provide more information electronically about their overall business operations. Especially as it relates to taxes owed on sales and purchases.

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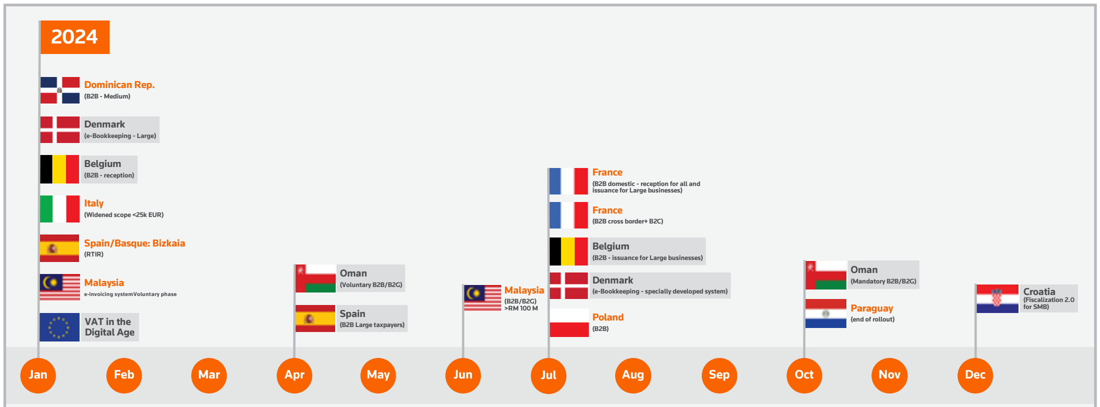
To accomplish these objectives, tax authorities around the world are rapidly rolling out new requirements, including e-invoicing and continuous transaction controls (CTC), which add another layer of complexity to the already complex compliance process. Keep in mind, invoice/CTC requirements are in addition to a company's typical, post-transaction tax-reporting obligations. Tax and IT departments grappling with these issues are taking on a significant amount of responsibility, costs, and work, and often with the same or even fewer resources.

Complicating matters further, there is no international standard for e-invoicing/CTC today, many of which evolve year over year. This means that global organizations must continuously monitor regulatory activity in every jurisdiction that pertains to them and comprehend the implications of any specific change. Failing to do so can interrupt business activity, invite penalties for non-compliance, or damage a company's relationship with tax authorities and customers in the region.

E-invoicing roll-outs from 2024 to 2028: Coming to a country near you

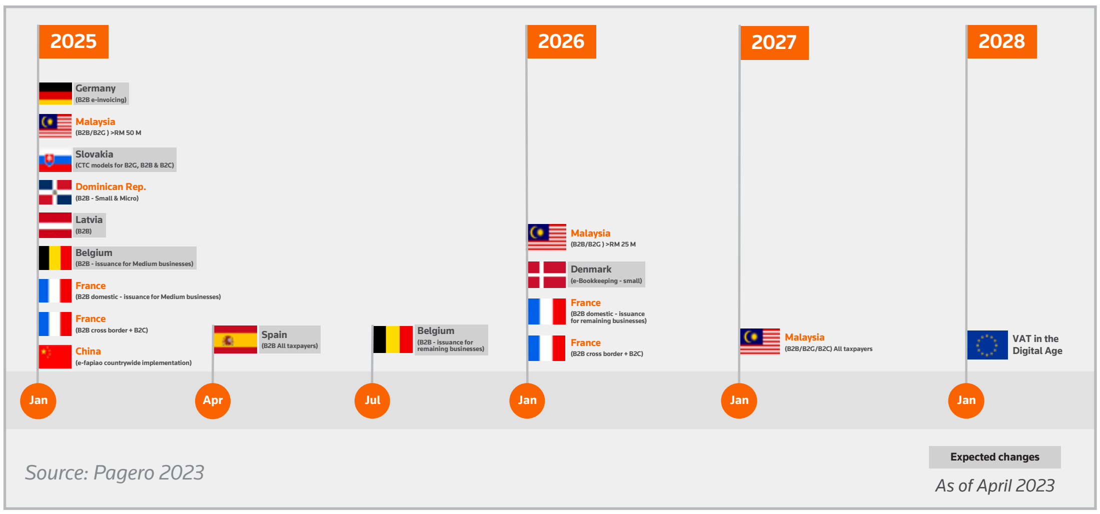


Source: Pagero 2023

E-invoicing, for the uninitiated, is a form of electronic invoicing in which transaction data is automatically shared between governments and companies via integrated networks, often — but not necessarily — in real-time.

First introduced in Brazil and Chile, as a way of closing a multimillion-dollar VAT gap, Italy in 2014 was the first country in Europe to mandate e-invoicing for all business-to-government (B2G) transactions.

Worldwide, more than 80 countries have introduced e-invoicing requirements. A number that continues to rise every year.



Source: Pagero 2023

As a result of Italy's e-invoicing mandates, which generated over €3.5 billion in additional VAT revenue in the first year, other countries quickly followed suit. Spain, Germany, Sweden, to name a few, have since implemented either full or partial B2G e-invoicing mandates of their own.

Over the next few years, many of these same countries will be expanding their e-invoicing regimes into business-to-business (B2B) and business-to-consumer (B2C) transactions, as Italy already has. Worldwide, more than 80 countries have introduced e-invoicing requirements. A number that continues to rise every year. By 2025, it's expected that 80% of all companies will be forced to adapt to e-invoicing requirements — the exception being companies that only operate domestically, where e-invoicing has yet to be adopted. (Source: Pagero)

Two important reasons governments are moving towards e-invoicing/CTCs over post-audit reporting, is its ability to provide more oversight into taxable transactions, ensuring accuracy, as well as its effectiveness at deterring fraud and tax evasion. E-invoicing has enjoyed so much success, so quickly, that global organizations are being forced to adapt and upgrade their invoice process much faster than they might otherwise choose.

The first hurdle is that globally, tax authorities have not settled on a standard format for e-invoices, so each country may use a slightly different data format.

Explaining e-invoicing, continuous transaction controls, and real-time reporting

E-invoicing, continuous transaction controls, and real-time reporting are all related to the management of financial transactions between businesses and tax authorities. However, there are some key differences between these concepts:

1. **E-invoicing:** E-invoicing is the electronic exchange of invoice data between businesses. This can include sending invoices in PDF or XML format, or using specialized electronic invoicing platforms that automate the creation, delivery, and payment of invoices. E-invoicing can help to reduce errors, streamline processes, and improve cash flow. However, it does not necessarily involve real-time reporting to tax authorities.

2. **Continuous Transaction Controls (CTCs):** CTCs are a set of regulatory measures that require businesses to submit transaction data in real-time or near real-time to tax authorities. This can include information on invoices, receipts, credit notes, and other financial documents. CTCs aim to increase tax compliance and reduce fraud by providing authorities with more timely and accurate data. However, they can also be complex and costly to implement.

3. **Real-time reporting:** Real-time reporting is a specific type of CTC that requires businesses to report financial transactions to tax authorities as they occur. This can involve using specialized software to transmit data directly from point-of-sale systems, e-commerce platforms, or other sources of transaction data. Real-time reporting can help tax authorities to monitor transactions more closely and respond more quickly to potential issues. However, it can also be burdensome for businesses and require significant investments in technology and staff training.

In summary, e-invoicing, CTCs, and real-time reporting all relate to the management of financial transactions between businesses and tax authorities. However, they differ in their level of automation, the frequency and granularity of data exchanged, and the degree of real-time reporting required.

The burden of complexity

What is it about e-invoicing/CTC that is so complex for businesses?

- Integration
- Lack of built in automation to financial systems
- Differences between countries

True, there are companies that have the technical infrastructure in place for electronic invoicing — but many do not. Once invoices are generated electronically, organizations have greater ability to transmit them through the appropriate network, after they've created the connection.

E-invoices only work if every data field in the invoice precisely matches the format requirements stipulated by the host country. One digit or space out of place can throw everything off. Each individual country can also set its own rules about reporting protocols, the coding for individual products or services sold, the content it wants a company to share, and the process for authorization and access to the government's system. Furthermore, these rules can change at any time, as can other regulations, so compliance can be a constantly moving target.

No standards = dizzying complexity

E-invoicing is made much more complicated by the fact that there are no real standards to follow. In addition to the placement and type of data contained in the invoice itself, companies must send invoices through an electronic exchange network, of which there are many. The most popular e-invoice standard is the EU network known as PEPPOL, but there are many others: XML/UBL, Facturae (Spain), CFDI (Mexico), ISDOC (Czech Republic), DTE (Chile), and dozens more. Each country has its own technical specifications and rules, which companies must adhere to precisely in order to comply with any given country's e-invoicing requirements.

Companies with more than $6 billion in revenue self-reported a disconcertingly low level of technological sophistication, at least when it comes to tax.

Automation: The only sensible solution

The scope of e-invoicing challenges multiply as the number of countries in which an organization operates expands. A global organization, operating in 25 counties, must keep a pulse on each jurisdiction's changing regulations and adapt accordingly. As manual processes are too slow to keep up with CTC/e-invoicing, it's important — and necessary — to automate these processes and workflows.

In addition to ensuring compliance, automating digital indirect tax and e-invoicing/CTC processes creates efficiencies by unifying the flow of data from tax calculations and e-invoices to post-audit tax operations. Merging and automating these tax workflows also saves money at almost every step of the process.

How automated IDT/e-invoicing saves money:

- Cutting costs associated with physical invoice management
- Cloud-native solutions cost less to implement and maintain
- Automated processes are more efficient
- Unique capability to update/enhance which requires no IT downtime
- Improved cash flow
- Less time and resources needed to ensure compliance
- Built-in scaling and future-proofing for global organizations with an e-invoicing solution that covers most or all countries

Is your organization's technology up to the task?

Given the speed in which countries are enacting e-invoicing mandates, with e-invoicing already live in more than 80 countries, and the multitude of challenges involved in complying with them, one might expect affected companies to be proactively preparing for the inevitable. However, the availability of a global solution has led to many businesses adopting country-specific options.

According to the Thomson Reuters® 2022 Corporate Tax Report, companies with more than $6 billion in revenue self-reported a disconcertingly low level of technological sophistication, at least when it comes to tax. Twenty-four percent of the largest companies in the report described their systems as "chaotic" (meaning they still use spreadsheets and manual processes for compliance) and 41% described their tax processes as "reactive" (meaning they use some third-party software and have a few automated feeds, but their software isn't connected to an enterprise-wide ERP system).

Companies that are this far behind technologically are hard pressed in the rapidly emerging world of all-but-universal e-invoicing/CTC. Without an integrated ERP system running automated e-invoicing software, companies will struggle to connect with government-run tax systems and collect or share data in anything close to real time.

To be fair, only 36% of the largest companies in the 2022 Corporate Tax Report reported having the technological capabilities necessary to meet e-invoicing requirements in multiple countries at the same time. Two-thirds of these companies still feel they are "under-resourced," even though they are among the most technologically sophisticated tax departments in the world.

Kiyomizudera shrine | Kyoto, Japan

Global organizations that haven't invested sufficiently in their technology infrastructure to support e-invoicing/CTC and are caught off guard may find it difficult to catch up in time.

Difficulties abound

The situation many global organizations are facing is this: over the next several years, dozens more countries will newly legislate e-invoicing compliance while others will continue to evolve and expand for some or all transactions (B2G, B2B, B2C). If companies are not prepared — that is, if they don't have the technology infrastructure in place to manage e-invoicing/CTC in countries where they operate — they will risk penalties for non-compliance and may be prevented from doing business in those countries until they do comply. Inaccurate invoicing can also invite other forms of regulatory scrutiny and result in lost customers, lost revenue, and damage to the brand.

Global organizations that haven't invested sufficiently in their technology infrastructure to support e-invoicing/CTC and are caught off guard may find it difficult to catch up in time. Some organizations may try to solve the problem by creating their own e-invoicing solution, or adopting one provided by a country itself — unfortunately, home-grown solutions don't tend to scale very well, and country-specific solutions only work in the country where they originate. Moreover, do-it-yourselfers must create a separate solution for each country, which is time-consuming and expensive, as is the effort to stay up to date on the ever-changing rules and regulations in those countries.

Finally, expanding operations into a new country can be difficult (if not impossible) if a company does not have its e-invoicing infrastructure and processes under control. As the need for more data at greater speeds outstrips a business' capabilities and resources, the stress on employees can mount, morale can suffer, and productivity can grind to a crawl.

The future of compliance: A universal solution

What should organizations be doing to avoid overwhelming their tax teams by piling e-invoicing/CTC requirements on top of their normal post-audit IDT compliance obligations?

The first step should be obvious: Organizations that are — or soon will be — encountering e-invoicing mandates need to make sure they have the proper technology infrastructure in place. At the very least this means having a cloud-based ERP platform that can integrate with government tax systems and run some form of e-invoicing software — either developed internally, issued from the host government, or developed by a third party.

How far along the organization is on its technological journey will determine what steps a company should take. In any case, the future of global trade is digital, and true technological preparedness means making a greater commitment to the quality and resilience of a company's overall technology infrastructure.

Organizations should ultimately be working toward a system that enables enterprise-wide data-sharing, automated tax workflows, pro-active analytics, pre-audit analysis capabilities, anticipatory risk management, and other capabilities — but there are many steps along the way, and they don't have to be tackled all at once in order to manage e-invoice/CTC compliance.

By combining the strengths of both companies, Thomson Reuters and Pagero have created the most comprehensive indirect tax and e-invoicing solution available.

Assuming an organization has the necessary technological toolkit, there remains the matter of finding an e-invoicing solution that addresses all an organization's needs for indirect tax determination and calculation, e-invoicing/CTC, and compliance reporting now and in the foreseeable future.

Many organizations are in the unfortunate position of having cobbled together a compliance process using different products from multiple service providers. And yes, an e-invoicing solution can be plugged into such a system, but that means dealing with yet another service provider and adding more bloat to an already cumbersome network.

After all, e-invoicing doesn't just involve VAT/GST calculations; it intersects with statutory reports, trade filings, tax returns, and other compliance matters, so the data must be shared with different departments and between disparate software solutions. The more solution providers a company relies upon, the more opportunity there is for miscommunication and mistakes.

Recognizing this situation, Thomson Reuters several years ago surveyed the IDT landscape and saw that there was no ideal solution that married tax calculation and IDT compliance capabilities with a truly universal e-invoicing platform. Committed to creating the most powerful IDT/e-invoice solution on the market, Thomson Reuters decided to partner with Pagero, providers of the Pagero Network, the world's fastest-growing network for automated, compliant, and secure exchange of electronic invoices and other business documents.

By combining the strengths of both companies, Thomson Reuters and Pagero have created the most comprehensive IDT/e-invoicing solution available — one that builds on Thomson Reuters market-leading ONESOURCE® Tax Determination and Compliance products and adds the power of Pagero's proven e-invoicing expertise.

A truly global e-invoicing platform, Pagero has customers in more than 140 countries with 30+ offices. Thomson Reuters ONESOURCE creates and delivers VAT/GST tax returns and supplementary post-auditing filings (e.g., SAF-T/SII) for 56 countries. Furthermore, Pagero exclusively utilizes cloud providers located in Sweden/EU which simplifies meeting EU data privacy requirements.

Riyadh, Saudi Arabia

Krakow, Poland

ONESOURCE Determination calculates all taxes (VAT, GST, excise, S&U) automatically, accurately, and in real-time. Pagero uses this data to manage invoices, validate e-invoice data, and submit e-invoices to tax authorities, also in real-time.

Stronger together: The advantage of partnering

Thomson Reuters and Pagero offer companies an end-to-end solution that radically simplifies the IDT compliance process, minimizes risk, reduces costs, and gives companies the flexibility to grow without having to worry about how their IDT software will adapt or scale when other countries come online.

Indeed, the Thomson Reuters/Pagero partnership offers a true universal solution for IDT compliance — one that combines real-time tax calculation and e-invoicing capabilities with post-audit accounting tools that automatically process and submit required e-documents to tax authorities in any country, in whatever format is required.

The two companies work well together because both Thomson Reuters and Pagero use cloud-based architecture to provide a centralized solution that automates and simplifies compliance processes.

Both solutions are also ERP-agnostic, so they can integrate with a company's existing technical architecture and easily adapt to any business, regulatory, or document specifications, enabling seamless compatibility with almost any government tax system.

An elegant solution

Elegance and simplicity in a single solution is what the Thomson Reuters/Pagero partnership delivers.

ONESOURCE Determination calculates all taxes (VAT, GST, excise, S&U) automatically, accurately, and in real-time. Pagero uses this data to manage invoices, validate e-invoice data, and submit e-invoices to tax authorities, also in real-time. In cases where the seller does not have the technical capability to manage e-invoices, Pagero even converts the data from a conventional invoice into the appropriate e-invoice format. All e-invoice data is then confirmed with ONESOURCE Indirect Compliance, which keeps track of accounting, generates e-documents in the appropriate format (e.g., SAF-T, SII) for each government, and creates and submits e-files for all relevant taxes.

All these capabilities fit well with what's known as a "decentralized clearance" model, in which governments outsource e-invoice/CTC processing to a third-party service provider. Acting as a go-between, the third-party provider confirms a seller's identity, clears invoices, and communicates VAT/GST data back to the government. Under this model, a global organization using the Thomson Reuters/Pagero IDT/e-invoice solution runs much less risk of encountering business interruptions due to glitches in a government's own system.

There are two invoice trends. One is when invoices need to be approved by the government (centralized), and the other is a service provider asking on behalf of the tax authority to validate and approve invoices (decentralized).

Many countries, such as France, are moving to a decentralized model because it protects businesses and the larger economy from system failures that have plagued some centralized platforms.

How might that look in the real world?

One Pagero customer was recently trapped in just the sort of e-invoicing bind that many global organizations can potentially face in the very near future. Here's how Pagero helped them:

Pagero's e-invoicing solution provided compliance in all 29 countries, reducing the e-invoicing workflow to one smooth, trouble-free process.

Case study: 29 countries, one universal solution with Pagero e-invoicing

A global technology company with a household name was juggling compliance obligations in 29 countries, many of which were implementing e-invoice mandates. As a result of these mandates and the resources needed to address them, compliance costs were rising rapidly. Each country had different data-formatting requirements and other rules, which meant the tax department was processing individualized invoices for each country and some local jurisdictions. The complexity of these different countries and local requirements was creating a time-consuming spiral of additional work. Invoice turnaround was lagging, and the tax department was falling behind, walking a tight compliance tightrope that the company knew was both risky and unsustainable.

Deploying Pagero's e-invoicing services, alongside SAP, to provide a global e-invoice capability was made easier because of its simplified way of connecting systems and government platforms and built-in jurisdiction requirements.

Once the migration was complete, Pagero fulfilled the invoicing-related tax and legal requirements in 29 countries where Pagero was used as the e-invoicing service provider. Within a year the number of e-invoicing projects increased by 250%. By 2020 there were almost 3000 customers in their project database pending implementation, and 10,000 customers already onboarded for e-invoicing. There was no longer a risk of invoice errors and the invoice turn around time had been tremendously reduced. Read more here

Solving the compliance puzzle

The lesson for global organizations is clear: the more streamlined the e-invoicing process, the easier it is to manage the rest of the IDT compliance puzzle. If e-invoicing and IDT compliance can be combined into an integrated, end-to-end package — as Thomson Reuters and Pagero have done — so much the better.

What global organizations don't need is a bloated network of software solutions from multiple service providers. What they do need — and the Thomson Reuters/Pagero solution provides — is a single product supported by a single service provider that does it all.

Thomson Reuters/Pagero's IDT/e-invoicing solution delivers:

- **Global reach**: Can execute the entire IDT/e-invoice process in almost any country with an e-invoice/CTC mandate.
- **Technology that scales:** Cloud-based solutions offer companies the agility to easily adapt to new jurisdictions and update regulatory content at no downtime.
- **Flexibility:** Integrates well with any ERP platform, business system, or invoice API, and can even accommodate manual e-invoice entry if necessary.

- **Reliability:** Third-party SaaS solutions have the capacity to process high volumes of invoices, even during peak holiday periods, without slowing down.
- **Security:** Adheres to all industry security standards, including the EU's GDPR data-privacy framework. Furthermore, data protection is provided by pro-active vulnerability scans and best practices in active intrusion detection and prevention.

Eiffel Tower | Paris, France

Ghent, Belgium

The Thomson Reuters/Pagero solution combines ONESOURCE Determination and Indirect Tax Compliance with Pagero's industry-leading e-invoice platform.

Conclusion

In general, governments around the world are digitalizing their tax regimes, forcing businesses to be more transparent and responsive, especially when it comes to indirect taxes. The latest and most urgent push is for the widespread implementation of electronic invoicing (e-invoicing) and real-time reporting (aka, Continuous Transaction Control, or CTC) as a means of preventing fraud and capturing more VAT/GST revenue from companies operating within and across a country's borders.

E-invoicing and real-time reporting present numerous compliance challenges for global organizations. Among them:

- ERP platforms and business systems need specific capabilities in order to exchange tax and e-invoicing data with government tax authorities
- A lack of standards for e-invoicing/CTCs means countries are free to develop their own rules and requirements, so every country's e-invoicing regime is different
- Manual tax processes are too slow to keep pace with most e-invoicing requirements, so automated solutions must be implemented
- Few tax and e-invoice solutions have both the technical flexibility and global reach that global organizations need for compliance in multiple countries

To address the need for a universal indirect tax solution, capable of accommodating e-invoice/CTC mandates the world over, Thomson Reuters and the e-invoicing experts at Pagero have partnered to create just such a solution.

The Thomson Reuters/Pagero solution combines ONESOURCE Determination and Indirect Tax Compliance with Pagero's industry-leading e-invoice platform to create a truly universal, cloud-based IDT/e-invoice solution capable of handling VAT/GST/S&U and e-invoice/CTC compliance requirements in over 70 countries where e-invoice compliance is required, now and in the future.

E-invoice/CTC mandates may be complex, but complying with them doesn't have to be. An automated, cloud-based solution can speed compliance, save money, and position growing global orgnizations for prosperity in the global marketplace, where e-invoicing and real-time reporting will soon be the norm rather than the exception.

About ONESOURCE

ONESOURCE Determination provides a comprehensive global solution for the efficient and accurate calculation of your indirect taxes. It is a secure cloud-based solution which integrates with leading IT systems as well as homegrown systems. Our global tax research team monitors more than 19,000 global tax jurisdictions in 205 plus countries and territories covering global indirect taxes — all of which get automatically integrated with your business systems. As a result, our solution enables you to effortlessly navigate the ever-changing tax landscape without the burden of having to configure your IT landscape because of legislative changes or changes to the way you do business.

About Thomson Reuters

Thomson Reuters is a leading provider of business information services. Our products include highly specialized information-enabled software and tools for legal, tax, accounting, and compliance professionals combined with the world's most global news services – Reuters. For more information on Thomson Reuters, visit **tr.com** and for the latest world news, **reuters.com**.

For further information, please visit:

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