E-invoicing and real-time reporting: an opportunity-shaped burden

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We assess the current state of e-invoicing in the UK and globally, the latest challenges and the perceived direction of travel.

Key Points

What is the issue?

In the EU, the VAT in the Digital Age (ViDA) proposals will mandate e-invoicing for cross-border transactions by July 2030. This shift necessitates businesses to integrate e-invoicing into their strategic frameworks to comply with new standards. HMRC has initiated a public consultation to gather views on potential standards.

What does it mean for me?

Businesses must adopt a standardised strategy to manage the complexity of varying e-invoicing requirements. Key considerations include identifying obligations, deploying suitable technology and ensuring that systems can provide necessary data. An impact assessment can help businesses to understand the implications and prepare effectively.

What can I take away?

Businesses should act promptly to develop a strategy, engage stakeholders, and prioritise essential steps for e-invoicing success. A piecemeal approach may no longer suffice as more countries adopt e-invoicing. Planning for system upgrades and aligning them with digital strategies is crucial.

Real-time reporting and e-invoicing requirements have been part of the changing regulatory landscape globally for many years, most notably with regards to VAT in Latin America. However, a rush of domestic obligations across the EU over the next few years will reach a crescendo following the adoption of the VAT in the Digital Age (ViDA) proposals, one pillar of which will impose e-invoicing and real-time reporting requirements on cross-border EU transactions by July 2030.

From this point on, millions of invoices between businesses within the EU will be subject to e-invoicing rules, imposing specific structure, data points and regulations to invoicing in order for these documents to be considered valid for VAT purposes. The ViDA initiative is further complicated by many EU countries having introduced their own digital reporting rules before the EU-wide rules come into force. (Globally, around 130 countries have or are in the process of implementing e-invoicing structures and standards.)

This will be the most significant expansion to digital reporting requirements across the EU in decades, increasing pressure on businesses to integrate e-invoicing and e-reporting into their strategic framework.

The UK position

Following HMRC’s Making Tax Digital for VAT initiative, it has now made its next significant digital move for VAT reporting purposes, by launching a public consultation on e-invoicing – ‘Electronic invoicing: promoting e-invoicing across UK

business and the public sector' (see tinyurl.com/2wrr7jxb) – to capture views from UK businesses on the type of standard it should consider.

E-invoicing is the digital exchange of invoice information directly between buyers' and suppliers' financial systems, even if these systems are different. The outcome is an invoice that is automatically written into the buyer's financial system without manual processing.

There are some interesting elements within the consultation:

- HMRC extensively states the benefits of e-invoicing. It highlights that 'industry estimates suggest that moving to e-invoicing reduces invoicing costs by 60% to 80%'.
- The consultation states that centralised e-invoicing models, such as those adopted by Chile and Italy, 'do not always improve business efficiency and are costly for tax authorities to implement'. In a centralised model, the tax authority receives the invoice via a central platform before taking any required action and sending the invoice on to the customer. This would be challenging and costly, requiring additional resources and technology, and HMRC has confirmed that it does not plan to explore this model in detail.
- The government is not yet looking to identify a specific standard or standards to adopt in the UK, but is rather seeking broader views on how those standards could be used to support e-invoicing adoption and increase potential benefits.
- The UK does not currently mandate standards for e-invoicing, other than requirements set by NHS England for its suppliers. The consultation refers to the current e-invoicing requirements around NHS procurement as an example of standard setting in the UK. It is possible that this may provide the foundation for a further expansion of e-invoicing requirements.

The consultation is unsurprising, considering the global direction of travel and criticism from some quarters suggesting that the UK is behind the curve compared to other countries' digital requirements and ambitions. Whilst there is no commitment around timelines for the introduction of e-invoicing, the publication of the consultation certainly hints at HMRC's intentions to implement e-invoicing in the future.

Given the extensive e-invoicing experience of businesses and advisers in other countries, the consultation can help to inform UK policy both in theory and in

practice.

Why introduce e-invoicing?

E-invoicing requires businesses to submit more information more quickly and more accurately, which should mean less room for error and fraud. The consultation quotes a 10% error rate when manually processing invoices. With a VAT gap in 2023-24 of £9.5 billion, this could represent almost £1 billion in additional revenue for the Exchequer, potentially avoiding or deferring the need for tax rises.

For businesses, the consequences of non-compliance with e-invoicing regulations are more pronounced than ever. Ultimately, if businesses are not ready, invoices could be blocked from reaching customers.

On the other hand, once automation is embedded successfully, it should result in reduced error and time saving, allowing more time for value-add activity. However, such benefits won’t come easily at first, with dedicated projects and technology solutions required to achieve compliance.

An effective strategy

With the growing complexity of country-specific e-invoicing requirements, businesses need to adopt a standardised and centralised strategy. Failing to be proactive in this area can lead to disruption, added costs and alignment issues.

An effective strategy helps to answer the three key questions businesses need to consider when addressing e-invoicing:

1. Where and when will the business be obliged to send and receive e-invoices?
2. Which technology solutions could be deployed to transmit e-invoicing data?
3. Are the business’s current processes and systems capable of providing the data points required to the technology solution?

Especially for businesses struggling with where to start with e-invoicing, a structured approach is the foundation for success. At its core, e-invoicing is underpinned by simple principles.

Impact assessment

First, businesses need to have in place the required technology to transmit invoicing data. They then need to be able to feed that technology with the right data points, in the right format, in a timely and accurate manner. Assessing your current systems, processes and data is just as important as understanding what e-invoicing technology could be deployed.

An impact assessment is a non-disruptive way to quickly understand where and when a business will be impacted by e-invoicing and underpins that business's roadmap for dealing with the challenge. Start the process as early as possible to avoid scrambling for solutions later down the line. That may sound obvious but businesses often underestimate how long implementation will take.

A well-executed impact assessment can also provide clarity as to whether current processes capture the data required in different jurisdictions and how to make adjustments to close gaps in transactional data.

Timelines

An additional complexity for many businesses when planning for future e-invoicing obligations will be changes to the current business systems landscapes, including upgrades or changes to enterprise resource planning (ERP) systems.

Any roadmap for e-invoicing compliance must be tied to the expected sources of e-invoicing data. Overlaying a timeline of e-invoicing mandates for a business can help to identify pinch points or areas of high risk. As with all timelines, it is also wise to expect some degree of delay and to plan accordingly.

A business with a clear strategy and roadmap for e-invoicing will reap the benefits of knowing what activity is required, how this should be prioritised and the ability to secure appropriate budgets from the outset. Make sure that readiness planning is taken early and the right stakeholders are lined up.

Data quality

The data-focused nature of e-invoicing regulations has further accelerated the importance of improving transactional data quality. In any country where e-invoicing is live, the onus is now on businesses to produce accurate transactional data at the time it is created, rather than relying on processes during compliance activity to

capture any errors or inaccuracies.

The disparities between various e-invoicing regulations pose challenges too. Compliance with different invoicing and reporting regimes can vary significantly in terms of data requirements. Some countries may require 200 to 300 data fields, while others may only need around 50. Reconciling the different data fields required by a country can also be challenging and businesses must leave enough time to address this.

Delivering e-invoicing compliance

E-invoicing cannot be owned unilaterally by one function within a business. From the outset, there will need to be involvement from IT, finance and tax functions as a minimum, each playing different roles and potentially managing varying priorities.

The most effective adopters will create a cohesive relationship between internal departments with regard to e-invoicing. With increased scrutiny from tax authorities on submitted data, any errors will burden finance. Tax has a key role to play, by ensuring that finance knows the requirements that must be met. Given the need for technology solutions to transmit data, IT must also be central to any project.

So, who should take overall ownership of e-invoicing implementation? Helping businesses to understand how to break this down and position tax internally so the right stakeholders are involved from the outset is vital. One effective method of agreeing individual responsibilities of different teams and stakeholder groups is through an internal RACI – an acronym for the different type of responsibilities within a project (Responsible, Accountable, Consulted and Informed). A clear, concise RACI, combined with a specific e-invoicing strategy and roadmap, gives the business clarity on what needs to be done and exactly who is responsible for which aspect of delivery.

The opportunity presented by e-invoicing

It is important for businesses to view regulatory changes as an opportunity to future-proof their indirect tax functions. E-invoicing can be the final element of a tax-led business case to secure data, process and systems improvements. Using regulatory change as a key driver not only provides an opportunity for a business to be

compliant, but also results in better quality data, more automation and less manual intervention, reducing error potential and freeing up time.

Many of our clients have for a long time known about shortcomings in the processes by which transactional data is produced. However, there was always an opportunity for data to be cleaned and improved before being submitted to the tax authorities, meaning that businesses were less inclined to invest in making improvements. The introduction of e-invoicing changes this, and we have seen many business cases for investment moving forwards given the more pronounced risk and potential exposure to non-compliance.

What should businesses do now?

In a future where e-invoicing and real-time reporting requirements continue to spread across the globe, a summary of the key takeaways discussed throughout the article may be useful to focus an approach:

- Act now to develop the right strategy. Businesses often underestimate how long it will take to get budget, resource and the right technology in place.
- Effective readiness planning is key. Take the time needed to map the footprint of the business against existing and future e-invoicing and real-time reporting requirements. This will help to mark key milestones and stay on track.
- Identify the right stakeholders and get them on board from the outset.
- Prioritise the next steps on areas that are essential for e-invoicing and real-time reporting to succeed; for example, improving data quality.

Globally, many businesses are revisiting the approach of taking each country’s rules independently. A piecemeal country–by-country approach may no longer be sufficient, particularly as more countries come online in quick succession across the EU. Where there are imminent business changes or plans for systems upgrades, think about how these will impact any digital strategy a business has in place.

In conclusion

In addition to the consultation, the government will engage with businesses to gain the views and input from a wide range of interested parties, including business round tables and other events through which you can contribute to future policy

development. If you would like to be involved in these events, please email einvoicingengagement@hmrc.gov.uk.

If we look further into the future, it is likely that we will see a global move to pre-populated VAT returns, as well as the increased use of GenAI. A well-formed, collaborative and strategic response to any upcoming changes is essential for future-proofing the VAT function.

One thing is clear, the trend of digitalisation for VAT is here to stay. Early adopters have more time to act, to gain greater insights and to deliver systems which work effectively. Laggards risk having retrofit systems, losing the opportunity to gain data benefits and suffering greater costs as deadlines near. Which approach will you take?

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