

The Potential of e-Invoicing in B2B Transactions

Kluwer International Tax Blog

July 30, 2020

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Please refer to this post as: Ksenija Cipek, 'The Potential of e-Invoicing in B2B Transactions', *Kluwer International Tax Blog*, July 30, 2020, <http://kluwertaxblog.com/2020/07/30/the-potential-of-einvoicing-in-b2b-transactions/>

The importance of digitalization has been demonstrated especially at this time of the COVID-19 disease pandemic. State and local institutions, as well as entrepreneurs, were in fact able to maintain their legal obligations and rights only through digital applications. In addition, digital purchases and payments have stimulated the further development of digitalization. Countries around the world are advancing the development of digitalization by providing digital services, including tax administrations. The level of digitalization varies from country to country, but the ultimate reach of full digitalization can now be discerned. In the age of digital evolution, new technologies as well as new ways of working contribute to accelerate digitalization, and it becomes clear that there is a need to take full advantage of the new age and the new economy which are unfolding.

Unfortunately, the global pandemic has not reduced tax fraud. Tax frauds, the shadow economy and corruption remain important obstacles to an efficient, transparent economy and the tax system as a whole. Digitalization and new technologies such as blockchain, Distributed Ledger Technology (DLT), Machine Learning, Artificial Intelligence and Robotics are all tools that can help reduce these 'society poisoners'.

Electronic invoices (e-invoicing) are unquestionably part of the on-going digitalization. Indeed, the advantages of e-invoicing have been recognized not only in public procurement procedures in the European Union (EU), but also in the context of business-to-business (B2B) transactions in some EU Member States and in many countries around the world.

e-Invoicing in the European Union

1. Definition and advantages of e-invoicing

e-Invoicing is the process of issuing and receiving invoices in electronic form between businesses. The use of paper, printers, postal services, etc., is excluded.

Notable advantages of e-invoicing are:

- reduced costs of postage, printing and storage of invoices;
- environmentally friendly process (environmental protection without the use of paper and printing and other negative environmental impacts);
- reduced invoice payment time (faster disposal of funds);
- increased productivity of entrepreneurs;
- reduced processing time of invoices entered directly into the entrepreneur's accounting system;
- strengthened communication between entrepreneurs;
- other.

From a tax point of view, e-invoicing affects:

- better quality services of the tax administration towards taxpayers (pre-completed of tax liabilities or tax refund, no further obligation for submission of any VAT return, or minimizing in stages);
- timely suppression of tax fraud and tax evasion;
- minimization of errors;
- other.

2. Public Procurement

[Directive 2014/55/EU](#) (the so-called 'e-invoicing Directive') promotes the uptake of electronic invoicing in public procurement, thereby allowing Member States, contracting authorities, contracting entities, and economic operators to generate significant benefits in terms of savings, environmental impact, and reduction of administrative burdens. The deadline for EU Member States to transpose [Directive 2014/55/EU](#) into their national laws and comply with the EU standard on e-invoicing was 18 April 2020.

3. VAT

Articles 217-240 of [Directive 2006/112/CE](#) (the VAT Directive) set forth the area of invoicing for VAT purposes. Although e-invoicing is mandatory for public procurement procedures, it is not mandatory in the field of VAT. Article 232 of the VAT Directive in fact stipulates that invoices may be sent on paper or, subject to acceptance by the recipient, they may be sent or made available by electronic means. Therefore, under the current EU VAT rules, issuing an e-invoice requires the consent of the recipient of the invoice.

Recognizing the advantages of e-invoicing in preventing tax fraud, reducing the shadow economy, and narrowing the Tax Gap along with corruption, some Member States have decided to introduce e-invoicing in B2B transactions. One aspect of electronic tracking of invoices was Italy's announcement that it will mandate the use of e-invoices for all taxpayers (except for those for which a special procedure for small taxpayers is prescribed) and, to that effect, requested the EU Council's approval for the derogation of the VAT Directive in the period from 1 July 2018 to 31 December 2021. In Italy, e-invoices are exchanged through the System of Interchange (Sol) managed by the Italian Revenue Agency, so that the tax administration gets information in real time on all issued e-invoices and is able to better monitor the compliance between reported and paid VAT. Italy considers that introducing a general e-invoice obligation presents the notable advantage of combating tax evasion, as well as simplifying the collection of taxes. It also believes that, from the adoption of e-invoicing, tax compliance will improve and that real benefits will follow from an increased timeliness and effectiveness of controls against tax fraud and tax evasion. Specifically, Italy claims that the current tax administration needs about 18 months to become aware of the existence of a 'missing trader' in the VAT chain, while the immediate availability of an e-invoice would reduce that interval up to just 3 months, thus enabling Italy to disrupt those fraudulent chains much faster. It is also claimed that this would also stimulate digitalization and administrative simplification^[1].

Spain has introduced a system of direct exchange of information electronically (SII). As early as 2017, the Spanish tax administration required tens of thousands of taxpayers to file VAT returns through the SII system. There is an obligation, subject to the conditions, that taxpayers must submit VAT returns in electronic format (the same obligation is prescribed in Croatia). An electronic data exchange system (SII) can be a good basis for a possible future e-invoice obligation, if the Council approves derogation from the VAT Directive.

France intends to introduce mandatory e-invoicing for B2B transactions from January 2023 or no later than 1 January 2025. The procedure should be that e-invoices must be pre-approved via electronic login to the government portal before being sent to the user. While awaiting the approval of the European Commission regarding the derogation of the VAT Directive, France passed [Law no. 2019-1479](#) of 28 December 2019 on Finances for 2020 ^[2].

Poland intends to replace the existing VAT reporting system SAF-T (JPK-J) and introduce an e-invoice obligation for B2B transactions between entrepreneurs by 2022. Both, France and Poland, will consider a good solution from the Italian SDL model when introducing an e-invoice obligation.

In April 2018, Greece's Ministry of Finance announced its intention to implement mandatory e-invoicing and e-bookkeeping for all Greek entrepreneurs and this should have started from January 1, 2020, but this is questionable due to the COVID-19 crisis and a new deadline is expected. Article 48 of the Greek [Law 4701/2020](#), titled 'Framework for Microcredit provision, financial sector regulations and other provisions', provides various incentives for implementing e-invoicing:

- a) The statute of limitation: the term within which the Tax Administration can proceed with the issuance of an administrative, estimated or corrective tax assessment act, is limited by two (2) years (reduced from 5 years).
- b) The expenditure for the initial procurement of technical equipment and software required for the implementation of electronic invoicing, is fully amortized in the year of its realization (increased to 100%).
- c) The expenditure incurred for the production, transmission and electronic archiving of electronic invoices for the first year of issuance of sales documents through electronic invoicing recognized for deduction from gross income from business activity, is increased by one hundred percent (100%).
- d) The deadline regarding the tax refund requests, which concern the tax year or the tax years, for which the issuers select and apply exclusively the electronic invoicing, is set at forty-five (45) days (reduced from 90 days). The deadline of the previous provision also applies to the calculation of interest payment to the taxpayer, who has unduly paid tax.

Some Examples of e-Invoicing Regimes around the World

e-Invoicing has already been implemented in Argentina, Bolivia, Brazil, China, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Peru and Uruguay. Implementation in those countries has effectively brought 4.2 million micro-enterprises out of the grey economy and into the formal economy. The use of an e-invoice also displays advantages for the company using it (e.g., for bookkeeping obligations). Further, e-invoicing guarantees an improvement in the accuracy of tax reports and it also helps to reduce the administrative costs and burdens on taxpayers ^[3].

A few examples in this regard: Interestingly, during 2018 the Singapore agency Infocomm Media Development Authority (IMDA) joined, as a PEPPOL Authority, the non-profit international association OpenPEPPOL ^[4]. The IMDA announced that businesses operating in Singapore will submit e-invoices to Government Agencies through the national e-invoicing network.

Japan will, in October 2023, introduce the so-called 'Qualified Invoice System', pursuant to which the total amount of the consumption tax corresponding to each rate must be included in the invoice along with the registration number of the qualified issuer.

Last but not worth mentioning, the standardization of e-invoicing in the United States is part of a larger Federal Reserve's initiative, which aims to improve the overall B2B payment efficiency in the market.

Conclusive Remarks

e-Invoicing is an integral part of the digitalization process. As stated, it provides many benefits in the fight against tax fraud and other 'society poisoners'. Meanwhile and after the global pandemic, there is a certain acceleration of the digital economy and digitalization through the adoption of new technologies. At the EU level, the obligation of e-invoicing is mandatory only in public procurement procedures, although countries are increasingly focusing on the use of the benefits of it. In this regard, the requests for a derogation from the VAT Directive by some EU Member States seem justified, especially given the current size of the Tax Gap and corruption. On the other hand, it is also necessary to consider certain tax incentives, which may encourage taxpayers to use e-invoicing. This may be an option but considering all the advantages of e-invoicing, it is to be expected that taxpayers will decide to use it.

The content of the article is the personal view of the author.

^[1] See European Commission, *Proposal for a Council Implementing Decision authorising the Italian Republic to introduce a special measure derogating from Articles 218 and 232 of Directive 2006/112/EC on the common system of value added tax*, COM(2018) 55 final.

[2] By way of derogation from Article 232 of the VAT Directive, France will have to comply with Article 395(1) of the VAT Directive, which stipulates that the Council, acting unanimously on a proposal from the Commission, may authorise any Member State to introduce special measures for derogation from the provisions of VAT Directive, in order to simplify the procedure for collecting VAT or to prevent certain forms of tax evasion or avoidance.

[3] See OECD, *Technology Tools to Tackle Tax Evasion and Tax Fraud* (OECD Publishing 2017).

[4] European Public Procurement On-Line (PEPPOL) enables businesses across Europe to communicate electronically with public buyers in various stages of the procurement process. OpenPEPPOL is a non-profit international association under Belgian law (Association Internationale Sans But Lucratif - AISBL) and consists of both public sector and private members. The association has assumed full responsibility for the development and maintenance of the PEPPOL specifications, building blocks and its services and implementation across Europe.