How to Prepare for the French e-Invoicing Mandate

Brace for impact: are you ready for the French e-invoicing mandate?

France has been planning to introduce clearance controls for some time.

When a country adopts clearance controls, the corresponding tax authority must approve the e-invoice before it is valid and can be sent to the buyer. The requirements also encompass transaction reporting as well as invoice lifecycle and payment lifecycle reporting. France isn't alone in planning to implement controls. The primary reason countries introduce these controls is to close the VAT collection gap.

The 2022 VAT Gap in the EU Report stated that France's VAT gap was estimated to be just under 14 billion Euros in 2020, 8% of VAT Total Tax Liability.*

*European Commission, Directorate-General for Taxation and Customs Union, Poniatowski, G., Bonch-Osmolovskiy, M., Śmietanka, A., et al., VAT gap in the EU : report 2022, Publications Office of the European Union, 2022

How Tradeshift helps your business to comply with the new mandate

Adhering to the new requirements can be costly. But it's also an opportunity to consolidate and refine processes. **E-invoicing** has been beneficial for many businesses as it helps them reduce costs by eliminating paper and postage fees.

For larger entities, there are often significant business automation benefits. Smaller businesses also profit by being able to check invoice statuses and payment statuses on the Tradeshift platform, which saves multiple phone calls and emails. In addition, using Tradeshift helps SMBs ensure that their invoice meets tax compliance requirements in case of an audit. Future benefits may be pre-filled VAT returns or in the longer term elimination of the VAT return. Clearance controls push all businesses to digitize their processes.

The increasing use of clearance controls globally

Clearance controls are well established in Latin America where authorities were early adopters. Administrations in Latin America are evolving their requirements further to encompass payment receipt reporting and tax benefits. Many of the European countries planning on implementing their own controls, will be keeping a close eye on the results achieved by other governments.

Clearance has been a focus for many EU countries. The EU commissioned the VAT in the Digital Age report.* To help to explain France's requirements it's good to understand the types of controls and terms.

European Commission, Directorate-General for Taxation and Customs Union, VAT in the digital age, Publications Office of the European Union, 2023

Periodic vs continuous transaction controls (CTCs)

The study covers **digital reporting requirements (DRRs)** where tax documents are to be submitted to tax authorities. The means and content of the reporting may vary but are broadly defined as either **periodic** or **continuous transaction controls**. A **periodic transaction control** might be monthly or quarterly reporting requirements. **Continuous transaction controls (CTCs)** involve reporting all transactions before or after the exchange. Clearance can be part of CTCs and involves the government providing a token or authorization code, akin to getting a stamp on your passport when traveling.

In the report, clearance is defined in terms of the **role of the central IT platforms** set up by the tax authority. In a **non-clearance** e-invoicing system, the supplier can send the e-invoice directly to their customer without having to request any token from the tax authority. In a **clearance system**, the supplier is required to either (i) obtain a verification token from the tax authority as a precondition to send the invoice, or (ii) send the draft e-invoice to a central IT platform, which in turn delivers (or issues and delivers) the **e-invoice** to the customer.

France's new e-invoicing and e-reporting compliance model is a mix between digital reporting requirements and CTC Clearance. Digital reporting is required for international B2B and B2C transactions.

Digital reporting is always required when using a PDP (the partner digitalization/dematerialization platform). When connecting directly to the PPF (the Public Invoicing Portal), CTC Clearance only applies when the PPF makes the documents available for the recipient and there are DRRs for lifecycle and payment status updates.

> **In short, all businesses in France will be required to report invoicing, transaction, and payment data to the tax authority.**

At a first glance, the Y-model representation seems complicated, but the principle is simple..

The **PPF** (aka. the government's 'Portail public de facturation') sits in the middle. Taxpayers or service providers can connect to the PPF via **EDI** or **API**, small taxpayers can use the PPF's web portal. This is where transactions must be reported to. The tax authority gets data from the PPF.

The French clearance model, explained
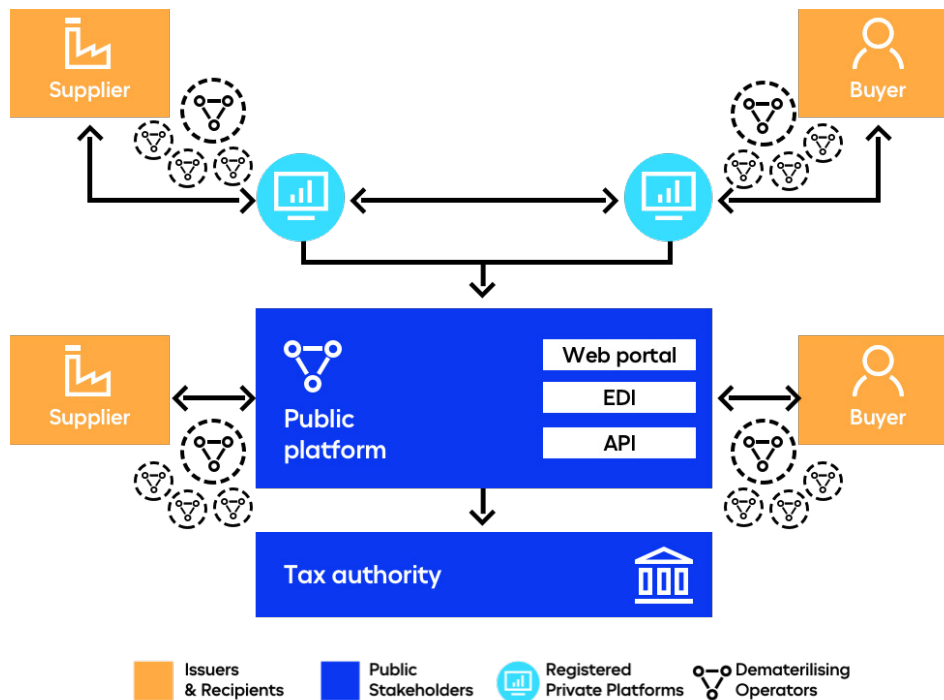
Businesses can connect directly to the PPF or they can use service providers. There are two types of service providers. **Dematerialising Operators (ODs)** and **Registered Private Platforms (PDPs)**. The difference between an OD and a PDP is that a PDP is authorized to facilitate transactions **directly** between a supplier and a buyer and periodically report transactions to the PPF.

The PDP concept was introduced to ease adoption for companies with existing invoicing solutions. Using a PDP essentially means **no major change is needed** to the way companies are exchanging documents. PDPs offer additional business automation benefits to their clients in addition to supporting regulatory requirements.

It's up to each business to determine whether they will use an OD, a PDP, or connect directly. A buyer may request suppliers use their PDP's service to send documents or provide additional fields in documents submitted to the PPF and that's okay., Suppliers can issue documents through different means. With the choice available to businesses, ensuring invoices are addressed correctly is going to be important, and only buyers, suppliers, and their PDPs can access the directory.

French e-invoicing mandate requirements

The Directory

The Directory is a list of all registered businesses defined at the **SIREN** and **SIRET** levels. It allows businesses to further define recipient information using routing codes if required.

The combination of SIREN, SIRET, and routing code form an **addressing line code** which **must** be included on documents to ensure successful transmission. The three levels of addressing options give buyers the flexibility to maintain different solutions in different areas of the businesses, possibly removing some implementation efforts.
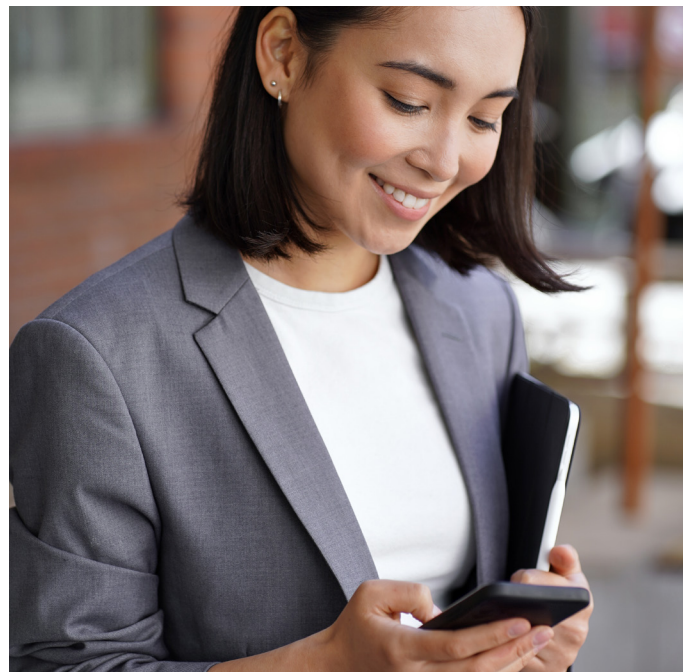
There are 4 possible flows for the Directory:

1 The issuer is consulting the Directory to obtain information for addressing an invoice

2 The buyer is requesting to update information in the Directory

3 The PDP request to update the buyer's information in the Directory for their buyer

4 The PDP makes a query to the Directory to ensure the invoice is addressed correctly

Businesses need to ensure they have a plan in place to address invoices accurately and that their suppliers can address invoices accurately. Failure to do this will result in delays – errors in line codes will need to be corrected, leading to unnecessary back-and-forth between buyers and suppliers.

As a PDP, Tradeshift provides peace of mind to users that documents are addressed correctly by connecting to the Directory and ensuring documents are sent to the right place. If documents are being sent to another PDP, interoperability ensures that the other service provider receives the data on behalf of their client.

e-Reporting

The e-reporting requirements are demanded at transaction-level. B2B invoicing is mandated to be in electronic form so each e-invoice needs to be submitted to the PPF.

e-Reporting, in the context of French requirements, refers to reporting of International B2B transactions and reporting of B2C transactions. The mandate to issue e-invoices for these types of transactions isn't being introduced at this stage. Reporting of lifecycle and payment statuses will be covered below.

Invoice **issuers** and invoice **receivers** are required to report on all transactions. For B2B transactions the invoice data should be reported, regardless of the method by which an invoice is received or issued. So if paper invoices are still being used, a digital record of that invoice with the required information for reporting will be required. Reporting of international B2B transactions requires the same data as domestic transactions except for French identifiers. The same applies to B2C reporting if invoices are issued. B2C reporting requirements allow data to be aggregated as invoices aren't always issued.

At this stage, businesses should be evaluating if they have fragmented processes where data from transactions is not being captured. It's possible to use different PDPs for different parts of the business, the important thing to plan for is that all data is reported on. Plans will need to be created to ensure that the data is available. e-Reporting will be **mandated at different times** depending on the size of the business but **all businesses** should be able to start providing this from **July 2024**.

Lifecycle & Payment Status Reporting

The **e-invoicing mandate** requirements involve standardizing invoice lifecycle and payment status reporting in France. Lifecycle statuses are reported in chronological order and data is made available to all parties involved in the transaction. While businesses may use different terminology in their tools today, it's going to be beneficial to update the terms used to improve communication quality. The majority of the statuses are provided by the buyer, and not all statuses need to be used.
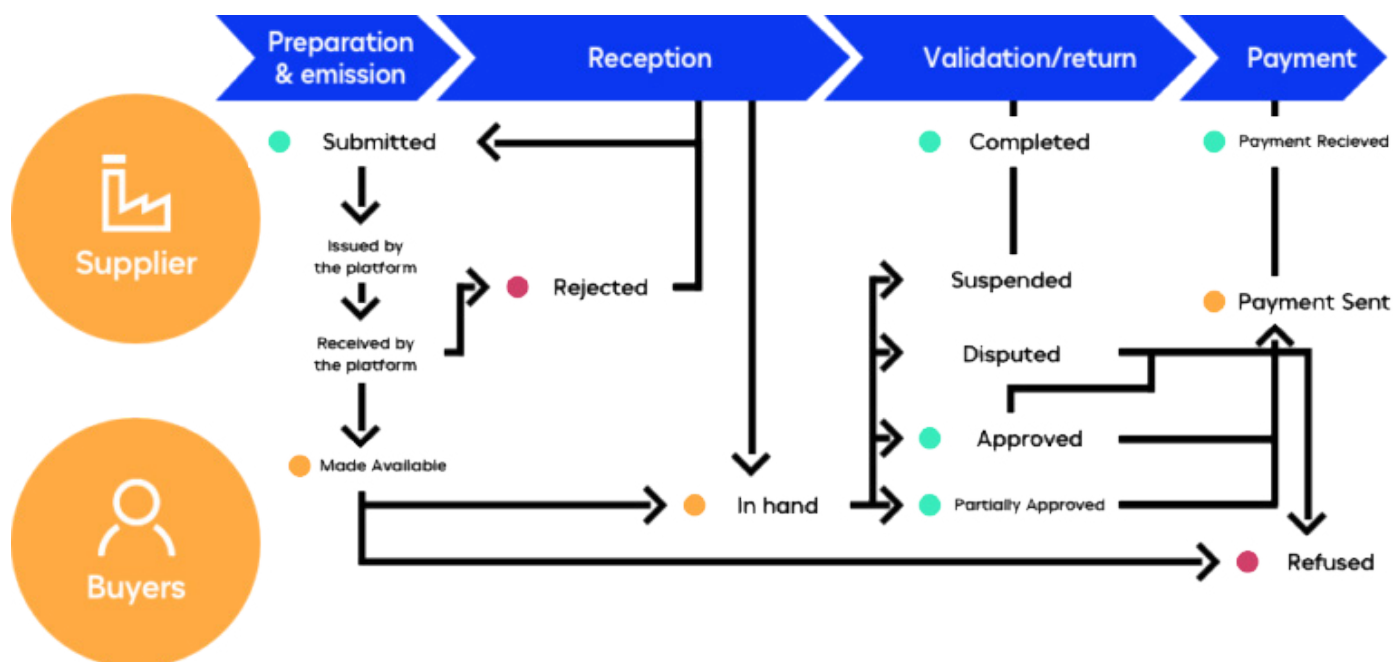
The statuses **Submitted, Rejected, Refused** and **Payment Received** are required. All other statuses are optional.

Made Available, I**n Hand**, **Approved**, **Partially Approved**, and **Payment Sent** statuses are recommended.

Although not all statuses are mandatory, there is a clear benefit to accounts payable teams in providing **visibility** into all as many of them as possible to suppliers. Invoice issuers are now going to be required to issue reports to the PPF showing payment received statuses for domestic, international B2B, and B2C transactions. This can be provided directly to the PPF or via the selected PDP.

Tradeshift already supports the required statuses on our platform and these can be connected to ERPs using APIs to ensure transitioning to these new requirements is made easily.

e-Invoice Content

There are 24 fields required in the invoice data which require the provision of:

- Tax identifiers and country of the issuer and receiver

- Unique invoice number or corrected invoice number for credit notes

- Category of the transaction – goods, services or both

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- Date of issue and date of delivery

- Amounts excluding and including VAT broken down by VAT rate as well as any discount information

- Self-billing and reverse charge indicators

- References to specific acts in case of tax exemption or special tax schemes

Invoice issuers and receivers both have a responsibility to report on transactions. It is the issuer's responsibility to ensure that the information in the invoice is accurate but the data will also form part of the buyer's reporting requirements. Most of the requirements are already present on many businesses' invoices. With the standardization of the formats, there are expectations that specific references are provided in a structured format that may be audited rather than free-form text.

Tradeshift can help your business to understand your supply chain's readiness for the changes and highlight missing information.

Are you ready for the French e-invoicing mandate?
We can help!

We've summarized the key requirements to consider in preparing for the new French e-invoicing and e-reporting mandate and its regulations.

Understanding and complying with technical, application, and functional controls to reduce error rates involves a deep understanding of the data requirements and corner cases. If you are planning on engaging directly with the PPF then you will need to start familiarizing yourself with the technical requirements published by the authorities.

Tradeshift has a range of services available to help businesses manage the change and is working closely with the authorities to become a PDP. We have a wealth of experience in navigating clearance solutions in other countries and are looking forward to helping our customers easily navigate these changes.

Learn more about the French e-Invoicing and e-reporting mandate coming in 2024.

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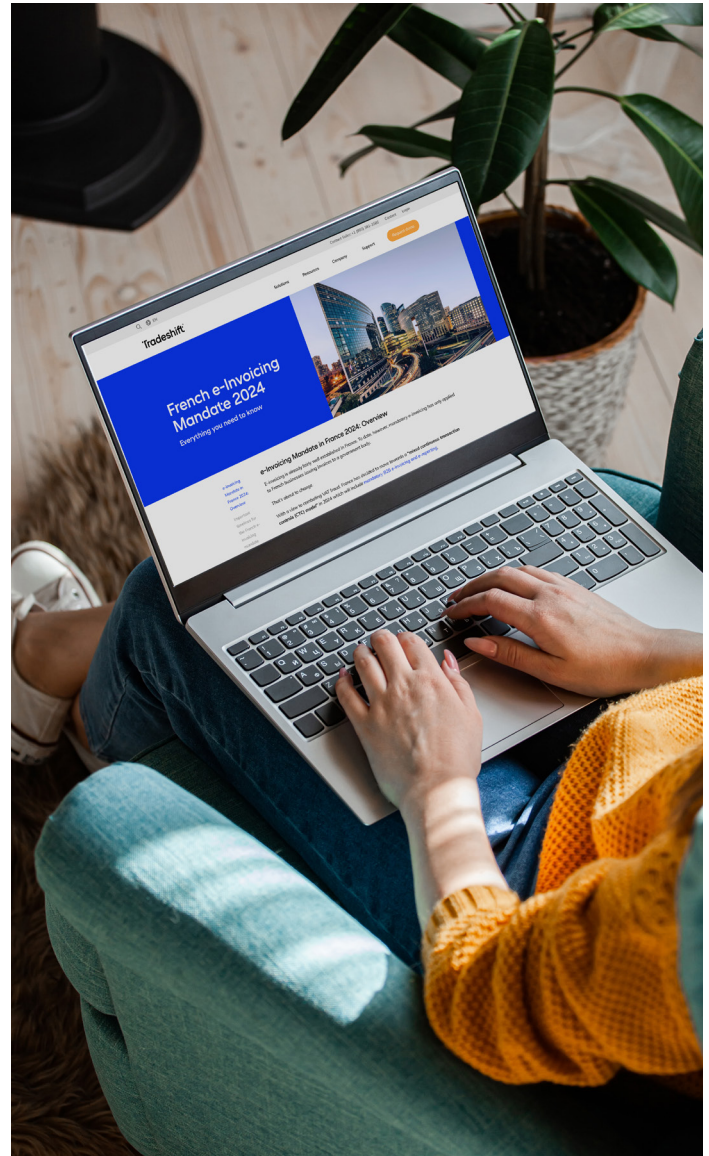
About Tradeshift

Tradeshift is the cloud-based supply chain platform that transforms the way B2B buyers and sellers connect, transact and trade. We're a leader in e-invoicing and AP automation, offering full international compliance in 50+ countries, including China. We're also an innovator in B2B marketplaces and embedded fintech services that bring value, opportunity, and growth to any business that joins the network.

Headquartered in San Francisco, Tradeshift's vision is to connect every company in the world, creating economic opportunity for all. Today, the Tradeshift platform is home to a rapidly growing community of buyers and sellers operating in more than 190 countries. Find out more at: www.tradeshift.com

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