# Tradeshift
## presents

# The Global Guide to e-Invoicing Compliance

# Introduction

## Learn about the latest in global e-Invoicing compliance requirements, continuous transaction controls (CTC), and real-time reporting.

Global organisations face the increasingly complex challenge of complying with regulations relating to e-invoicing compliance requirements, continuous transaction control (CTC), and real-time reporting. Governments worldwide are digitizing their tax systems and implementing e-invoicing requirements and controls that differ from one country to the next.

Businesses need to modernize their invoicing processes, transact documents through government networks, meet diverse regulatory requirements, and seamlessly integrate these processes with their existing financial systems—all while keeping up with continuously evolving regulations.

Some businesses opt for a DIY approach, building internal teams to adapt their e-invoicing compliance processes and systems for direct integration with government clearance systems. However, this approach is fraught with challenges. We often receive calls from businesses that initially chose this path, only to find themselves overwhelmed as deadlines approach.

The costs and complexities of managing e-invoicing compliance internally are daunting. For global businesses, meeting an ever-expanding list of local requirements can quickly become a Sisyphean challenge, hindering overall business operations.



This guide will explore why more governments are implementing e-invoicing compliance and CTC mandates, what these mandates entail, their challenges, and how Tradeshift can help you transform these potential risks into competitive advantages. Whatever your compliance needs, rest assured—we've got you covered.

# Chapters

# The Why of e-Invoicing Mandates

## Closing the VAT Gap

For over 20 years, governments worldwide have been striving for greater control, regulation, and insight into domestic and cross-border business transactions.

Some of the reasoning behind the shift towards mandatory **e-invoicing** stems from a desire to modernize administrative processes and improve overall efficiency in business transactions. That was especially the case in the Nordic countries, which were among the first to mandate e-invoicing standards. However, the greater catalyst and driver for e-invoicing comes from the rising tide in VAT and GST tax reform now occurring worldwide, along with ongoing efforts to reduce tax evasion and fraud.

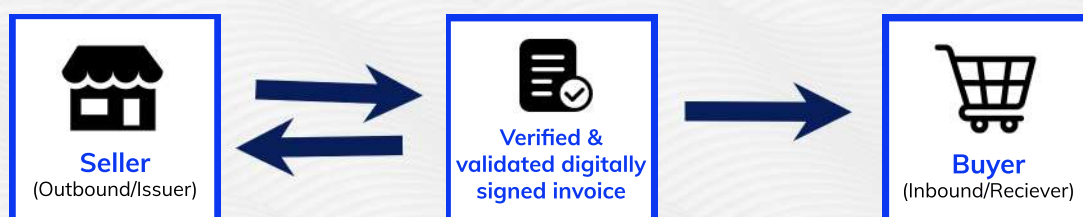## The Gap: 44% of Potential VAT Revenue is Never Collected

166 out of 193 OECD countries levy some form of VAT, but as much as **44%** of potential VAT revenue is **never collected** by tax authorities. In its 2022 report on the issue of the value-added tax (VAT) gap, the European Commission found that EU member states were short an estimated **€93bn** in VAT revenues in 2020.

A growing number of countries have published or expressed an intention to rework tax reporting and collection systems to combat "**lost VAT**," commonly called the "VAT Gap."

## The Post-audit Model

Traditionally, most countries have used a **post-audit model** for business-to-business (B2B) transactions, where invoices are exchanged directly between seller and buyer and reviewed by tax authorities post-issuance.

Businesses must retain proof of invoice accuracy for up to a decade, as audits can occur months or years after a transaction. Paper and PDF invoices remain surprisingly common in the post-audit model. Still, it is often combined with voluntary **e-invoicing**, which means digital invoices can be accepted for VAT compliance purposes, provided they meet certain conditions.

**Seller**
(Outbound/Issuer)

**Verified & validated digitally signed invoice**

**Buyer**
(Inbound/Reciever)

European tax authorities viewed the post-audit model as accommodating larger enterprises' desire to automate inefficient invoice processes by adopting e-invoicing. While this model theoretically simplifies tax monitoring and collection, post-audit procedures are often costly, inefficient, and cumbersome.

## The rise of clearance models and continuous transaction controls (CTC)
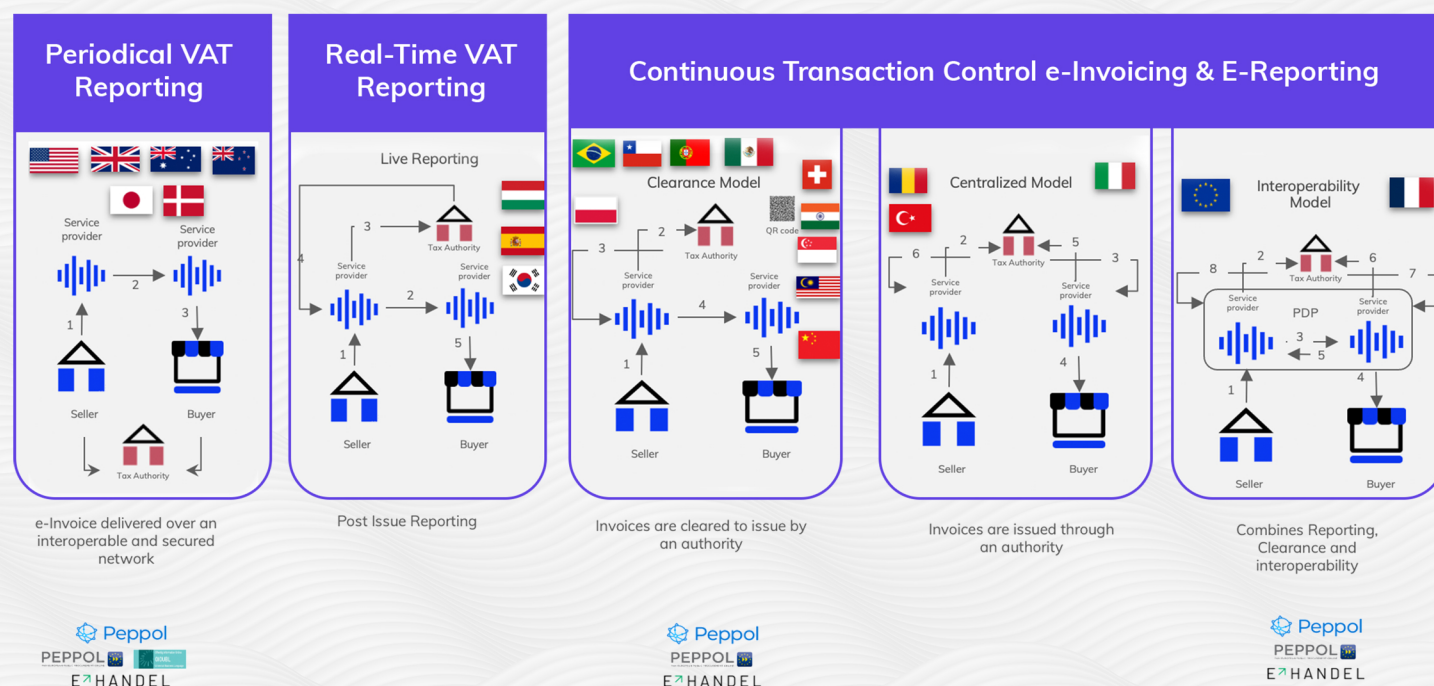
While Europe was implementing optional e-invoicing following the post-audit model, elsewhere, countries in Latin America took a much more radical approach that focused squarely on closing the VAT Gap. This led to the 'clearance model,' or **Continuous Transaction Controls (CTC)**.

In clearance models, tax authorities validate or clear invoices before sending them to buyers, ensuring they comply with tax regulations. Transaction data must be submitted to a tax authority platform **before, during**, or immediately **after** the supplier sends each invoice to a buyer, providing government agencies with a real-time or near-real-time view of transactions.

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

E-invoicing is generally required as part of a CTC mandate, but exceptions exist. In India, for example, the invoice must be cleared by the tax administration, but it's not mandatory to subsequently exchange the invoice in a digital format.

## Different Tax Compliance Models



**Periodical VAT Reporting**

e-Invoice delivered over an interoperable and secured network

**Real-Time VAT Reporting**

Live Reporting

Post Issue Reporting

**Continuous Transaction Control e-Invoicing & E-Reporting**

Clearance Model

Invoices are cleared to issue by an authority

Centralized Model

Invoices are issued through an authority

Interoperability Model

Combines Reporting, Clearance and interoperability

# What is Peppol

PEPPOL is an infrastructure and a network for exchanging electronic business documents, such as e-invoices, relating to B2B e-commerce and e-procurement.

Created in 2008 as an EU project by the European Commission, it aimed to facilitate the development of e-commerce in Europe. Later, it became a global network of service providers and national government authorities, forming the non-profit "**OpenPEPPOL**" organization under Belgian law.

PEPPOL is in use in 31 European countries plus Australia, Canada, New Zealand, Singapore, South Africa, and the United States. OpenPEPPOL has Certified Access Points in 29 European countries as well as in Australia, Canada, New Zealand, Singapore, and the USA.

Tradeshift is a founding member of the OpenPEPPOL organization and uses its artefacts and specifications to enable cross-border e-procurement and e-invoicing.
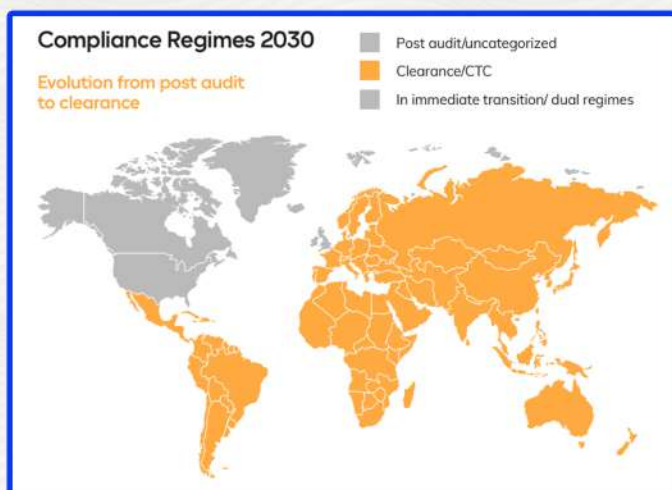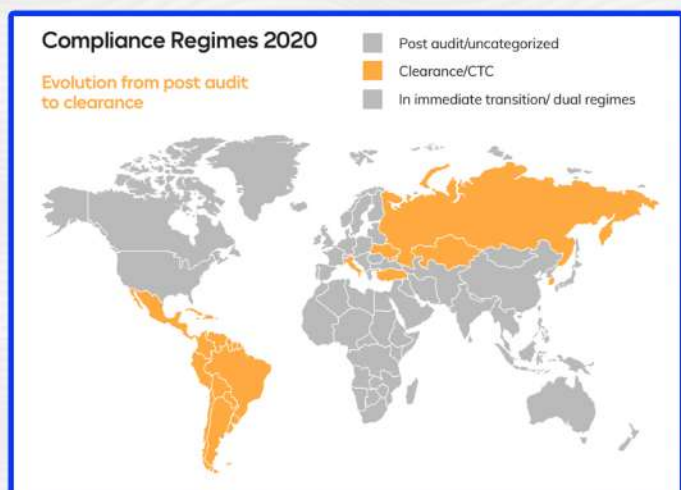
# Mandated e-Invoicing: A Global Trend

## As the success of the CTC model becomes obvious, more countries are hopping on the e-Invoicing mandate bandwagon.

The CTC model addresses the inefficiencies that have always characterized retroactive audits. The impetus behind the move to mandated e-invoicing and CTC systems is highly consistent from country to country, with the main benefits being to:

1. Drive uniform tax compliance.
2. Increase tax collections and revenue.
3. Protect against tax fraud and corruption.

The results have been impressive. Brazil reported a $58 billion increase in tax revenue through its CTC model. Italy increased tax revenue by $4.76 billion by validating and clearing more than 890 million invoices.

Due mainly to the staggering improvements in revenue collection and economic transparency demonstrated by countries with existing CTC regimes, countries in Europe, Asia, and Africa have also started moving away from post-audit regulation and adopting CTC-inspired approaches.



Compliance Regimes 2020 — Evolution from post audit to clearance — Post audit/uncategorized — Clearance/CTC — In immediate transition/ dual regimes



Compliance Regimes 2030 — Evolution from post audit to clearance — Post audit/uncategorized — Clearance/CTC — In immediate transition/ dual regimes

**Learn more about how Tradeshift helps you navigate global e-invoicing**

## Living 'la ViDA loca'

One region that's been turned upside down by the spectacular success of the CTC model is the EU. In December 2022, the European Commission announced a series of measures to modernize VAT across the European Union through the VAT in the Digital Age (ViDA) set of regulations.

ViDA proposes several measures to ensure efficient VAT collection while simplifying administrative processes for businesses. One key pillar is mandatory CTC e-invoicing/e-reporting across the region.

The ViDA proposal explains that switching to electronic invoicing will help reduce VAT fraud by up to €11 billion per year over the next ten years.

## The three pillars of ViDA

**Digital Reporting Requirements (DRR):** This pillar will involve a real-time digital reporting system that facilitates smoother data exchange between businesses and tax authorities. The focus is on generalizing e-invoicing and standardizing the information businesses must submit for each transaction with tax authorities.

**Platform Economy Rules:** This pillar addresses the challenges of the platform economy, particularly in sectors like short-term accommodation rentals and passenger transport services. ViDA aims to clarify existing VAT rules for these platforms and potentially enhance their role in VAT collection.

**Single EU VAT Registration:** This pillar aims to simplify VAT registration for businesses that operate across multiple EU countries. Currently, companies may need to register for VAT in each country they operate in, which can be a complex and time-consuming process. A single EU VAT registration would streamline this process and reduce administrative burdens.

## Standardization - up to a point

ViDA intends to provide a degree of harmonization in the future. Over time, that will mean standardized e-invoicing formats across the EU. We also expect to see at least some level of real-time reporting requirement in every country across the region. Even so, there will be significant differences in how individual countries implement new **mandatory e-invoicing regulations** regarding what they do and the timelines they follow.

One of the first countries in Europe to implement **mandatory e-invoicing was Italy**. The Italian model looks similar to some Latin American clearance models, with a single, central government portal to which all suppliers must connect to deliver their invoices.

The **Polish mandatory e-invoicing model** is similar to that in Italy, with a central portal, KSeF, and its own XML invoice format. However, unlike in Italy, the invoice is not checked for business/tax data. Nor does it manage invoice delivery.

France has adopted its B2G e-invoicing platform and adapted it to become its public portal (PPF). Unlike Poland and Italy, three invoice formats can be accepted: UBL, CII, and Factur-X.7. Under the **French CTC model**, invoices to government bodies must be submitted electronically via the Chorus Pro platform. Companies in France have the choice of either connecting independently and directly to the official government platform Chorus Pro (the "Portail Public de Facturation" or PPF) or using an appropriately certified third-party platform (The "Plateforme de Dématérialisation Partenaire" or PDP).

The French Government has suggested that the PPF will only have basic core functionality and only smaller businesses are expected to submit invoices directly to Chorus Pro. The overwhelming majority will need to partner with a PDP for larger organizations.

**Click here to watch out video on How to Prepare for the French e-Invoicing Mandate with Tradeshift PDP**

## PDP candidates and accreditation process for e-Invoicing in France

Tradeshift is one of a select group of companies that have qualified as a PDP candidate in the formal accreditation process run by the French Government.

In August 2024 Tradeshift was **awarded PDP registered status** by the DGiF (Direction générale des Finances publiques). In practice, this means that it has successfully demonstrated its ability to handle the requirements of the French government's compliance mandate.

We have a deep understanding of the French Government's e-invoicing requirements. We are well-placed to accommodate any changes to current and future modifications to e-invoicing and e-reporting standards in France.

Visit our regularly updated **France e-Invoicing content hub** to learn how we're helping businesses stay up-to-date and ready for the change.

## A global patchwork of e-Invoicing regulations

More than **80 countries worldwide have e-invoicing mandates**, and 50 have announced their intention to impose new or additional mandates. We expect most countries with VAT, GST, or similar indirect taxes to fully or partially adopt such CTC controls by 2030.

### Countries Timeline - Upcoming Changes

| 2000 - 2021 | 2022 - 2023 | 2024 | 2025 - 2028 |
|---|---|---|---|
| • **Brazil -** NF-e electronic invoicing | • **Portugal -** QR code on invoice; invoice SAF-T for non-residents; ATCUD pre-clearance codes | • **Romania - B2B e-factura e-invoicing (July 2024)** | • **ViDA** |
| • **Argentina -** e-facture (& QR B2C since 2021) | • **Poland -** KSeF e-invoicing voluntary phase | • **Portugal -** Digital Signature required (Jan) | • **Spain -** B2B e-invoicing |
| • **Italy -** B2B / B2C (extension of B2G) | • **Italy -** extension of SDI reporting to cross-border and SDI e-invoicing to SMEs | • **Malaysia -** Peppol B2B e-invoicing (mandatory in Aug) | • **Croatia -** B2B e-invoicing |
| • **India -** B2B, QR codes B2C | • **Indonesia -** B2B e-invoice Clearance | • **Philippines -** B2B e-Invoicing system (EIS) | • **UAE -** B2B e-invoicing |
| • **Colombia -** e-invoice CUFE | • **Belgium -** B2G Peppol e-invoicing | • **Oman -** voluntary VAT e-invoicing program (Apr) - mandatory in Oct | • **Latvia -** B2B Peppol |
| • **Mexico, Bolivia, Costa Rica, Chile, Ecuador, Peru, Paraguay** | • **EU -** VAT in Digital Age Proposal (Dec 22) | • **Israel -** B2B e-invoicing (May) | • **Slovakia -** IS EFA B2B / B2C e-invoicing |
| • **South Korea, Indonesia, Taiwan, Vietnam** | • **Australia -** Peppol B2G e-invoicing | • **Botswana -** B2B e-invoicing (Dec) | • **France -** B2B e-invoicing and e-reporting |
| • **Turkey** | • **New Zealand -** Peppol B2G e-invoicing | • **Mauritius -** B2B e-invoicing (May) | • **Germany - B2B -** e-invoicing |
| • **Portugal -** use of certified invoicing software | • **Serbia -** B2B e-invoicing | • **Dominican Republic -** B2B e-invoicing (Jan - May) | • **Belgium -** Peppol B2B e-invoicing |
| • **EU -** B2G (optional pan-EU using Peppol or individual mandates) | • **KSA -** Fatoorah e-invoicing Phase 2 | • **Switzerland -** B2B QR code | • **Israel -** B2B e-invoicing |
| • **KSA -** Fatoorah e-invoicing (Phase 1) + QR | • **China -** e-fapio e-invoicing | | • **Poland -** KSef B2B e-invoicing |
| • **Peppol -** Norway, Iceland, Australia, New Zealand, Singapore | • **Japan -** Tax qualified invoices (Peppol Oct 23) | | • **Ireland -** B2B e-invoicing (TBC) |
| • **Greece -** My Data VAT books | • **USA -** Digital Business Networks Alliance B2B Digital Highway | | • **Estonia -** B2B e-invoicing (TBC) |
| | | | • **Australia -** Peppol B2B e-invoicing |
| | | | • **Finland -** B2B e-invoicing (TBC) |

Variations in how countries choose to implement CTC models are by no means limited to the EU. Globally, the lack of standards for e-invoicing and CTCs means countries are free to develop their own rules and requirements. As a result, businesses are left facing a complex and often confusing matrix of requirements to which they must adhere.

Formats, content, transmission methods, and audit records are now being specified country by country. Some countries include the phasing in and, in some cases, exclusion of specific sectors, goods, and services, as well as differing tax requirements based on the company's size. The issuance of unique registration numbers that sometimes require a QR verification code varies by country. Countries require various firewalls and cybersecurity demands. There are also different non-compliance penalties for both the buyer and supplier.

Sending or receiving invoices within a given government jurisdiction forces organizations to comply with these requirements. For many, this necessitates fundamental changes to business systems and invoicing processes.

# Impact of e-Invoicing Mandates on AP Processes

## AP Departments are pressured to have the right systems in place to ensure global e-invoicing compliance

While the **supplier** is responsible for raising and registering e-invoices with tax authorities, **buyers** are accountable for maintaining a compliance chain across all relevant suppliers.

Under certain circumstances, the buyer could share equal responsibility for e-invoicing compliance and validation regardless of whether they are buying in the country or importing from a country with a CTC regime.

## Outbound vs Inbound Clearance

**Outbound (AR) clearance** refers to the invoice issuer's responsibility to communicate the invoice to a tax administration service. Additionally, outbound clearance entails receiving a predefined approval or confirmation message from that service as a precondition for issuing, canceling, or correcting an invoice.

**Inbound (AP) clearance** - touches on the invoice receiver's responsibility to validate the e-invoice received concerning integrity, authenticity, certificate trust, and clearance. Suppliers will need a solution to support outbound in countries moving to clearance. Buyers will need a way to verify that the invoice has been cleared as part of their inbound processing.

AP departments must ensure they have the systems in place to verify the validity and compliance of all invoices received, including invoice registration and QR codes (as necessary) and all content requirements of the overseeing tax authority. That also requires tracking and updating systems to stay up to date on new and **changing tax compliance requirements from country to country**.

## Failure is not an option.

Non-compliance with regulations comes with the potential of significant business and financial harm, including:

- Administrative fines
- Legal sanctions
- Protracted audits
- Loss of VAT rights
- Trading partner audits

The business risk of non-compliance goes beyond the threat of potential financial penalties. Businesses that fail to deploy compliant solutions proactively risk falling behind competitors whose ability to optimize workflows and avoid transaction delays will leave them in a prime position to win business. A lack of systems and expertise to streamline compliance requirements can also prove a significant drain on internal resources, pushing the focus away from core business activities and innovation.

## Playing AP automation catch-up

Companies that have not previously prioritized **digitizing and automating AP systems** must play catch up to prevent and solve these compliance challenges. Many global organizations also find that ad hoc country-by-country AP digitization represents a costly quick fix that is a significant time-suck on overly stressed AP departments that don't have the flexibility to adapt to changing requirements.

The bottom line is that businesses can only manage e-invoicing/CTC compliance with the proper technology, such as Tradeshift's AI-enabled **AP automation and e-invoicing solution Pay**.

# Turning Risk into Opportunity

## How automated e-Invoicing compliance benefits your AP function

The business case for e-invoicing and fully automated and networked AP management goes far beyond compliance. The benefits and positive business impacts are well documented:

- Significant reduction in the cost of processing invoices.
- Reduced likelihood of invoice disputes and supplier inquiries.
- Elimination of manual entry errors to reduce invoice exceptions.
- Optimized cash management while increasing business agility.
- Carbon footprint reduction due to the elimination of paper-based processing

Viewed strategically and with the right technology partner, digitalizing invoicing can help businesses eliminate resource-intensive and error-prone paper-based processes once and for all.

Such a transition promises to help businesses by improving the speed and accuracy of payments, reducing invoicing costs, strengthening supplier relationships, and providing rich, real-time data for more effective decision-making.

All of this highlights the need for AP automation solutions that can centralize and streamline global e-invoicing compliance.

## Preparing the ground for automated compliance

Multinational companies must not decide whether centralization of core finance and enterprise systems is the right path. It's about when to begin the process and how to prepare for it.

While the specifics of becoming compliant will vary from country, the fundamentals of preparing your business to accommodate change do not:

### 1 Gather stakeholders:

Complying with new regulations will require teams to think differently and act more collaboratively across departments. To manage that change effectively, businesses need to set up dedicated teams and bring cross-departmental stakeholders to the table. Typically, that group would include the CFO, the head of procurement, the head of AP, and relevant IT team members who would sponsor the project.

### 2 Audit processes:

Companies should have a clear idea of their primary objectives and priorities for enterprise finance IT transformation and consolidation when entering the audit process. The audit should include all existing enterprise finance, AP, and AR systems, software, and tools, as well as how those integrate with various ERP and other core enterprise systems across the organization. In some cases, compliance may require adjustments to ERP and workflows, which may necessitate some upfront IT infrastructure investment.

### 3 Clean your data:

Digital transformation is built on clean data, and e-invoicing compliance is no different. For clearance countries, the guidelines on what data businesses need to handle and store are generally made clear relatively early. For example, the **French e-invoicing mandate** must include 24 mandatory data items in the e-invoice and then be sent to the PPF platform. Businesses that don't already have their house in order from a data quality perspective will likely face problems and delays later. To avoid this, companies need to look broadly at the quality of their digital storage and the quality of the data they have in place today.

### 4 Identify potential gaps:

Clearance regimes typically mandate just enough information for tax determination. What's good enough for the government isn't always good enough for businesses that often need additional information on an invoice to process it through their internal systems. Left unaddressed, AP teams can be left facing the task of collecting and inputting that additional information after the fact, creating an administrative burden that wipes out many of the efficiency benefits the shift to e-invoicing should be creating. The best AP automation solutions (like **Tradeshift Pay** collecting and verifying data outside mandated fields.

**6**

# Selecting the Right Compliance Partner

## Seven critical questions for shortlisting your vendor selection.

For most mid-to-large organizations, partnering with a specialist AP automation technology provider is the only realistic way to stay ahead of a rapidly evolving compliance landscape.

There are plenty of solution providers who can help, but that doesn't necessarily mean they'll always suit your unique business needs.

## Here are the seven key questions you should ask when shortlisting your vendor selection:

• To what extent can they demonstrate experience and capabilities in delivering compliance across multiple markets?

• Can they provide a clear roadmap to support you with clearance models as they're rolled out in other countries?

• Do they provide a solution to help you automate the collection and verification of any additional data you require for invoice processing not covered by local CTC mandates?

• Are they purely focused on helping you achieve e-invoicing compliance, or do they offer a range of fintech solutions that can help you streamline and automate the entire procure-to-pay process?

• Which partners do they actively work with, and how can you use these to your advantage in other areas?

• What kind of experience and benefits does the solution offer suppliers invited to use the system to send invoices?

• How often do they update their technology and utilize the latest innovations, such as **AI-driven AP automation**?

## Watch our on-demand webinar: e-Invoicing Compliance

The world of e-invoicing compliance is fast-paced, with new regulations seemingly popping up daily. Navigating the landscape of Continuous Transaction Controls (CTC) and regional clearance models is a full-time job. Different countries have different rules, and staying on top of them all can be overwhelming.

We've partnered with Shared Services Link to bring to you this webinar designed specifically for mid-sized and large organizations navigating the ever-shifting e-invoicing compliance mandates. We'll untangle the complexities of Continuous Transaction Controls (CTC) – the new wave of regulations taking hold across the globe.

### Watch the Webinar here.

# The Tradeshift Advantage

## Global e-Invoicing compliance… and more.

*"Having a partner like Tradeshift that has a consistent eye on compliance at a global level and is ready to develop solutions in partnership with you it's a massive advantage for us. We know you guys are thinking about it, we know it's on your roadmap, and we know we get what we need."*

Senior Finance Transformation Manager, Global Fashion Retailer

## e-Invoicing Compliance is in our DNA

Helping our clients comply with ever-changing global e-invoicing regulations is 'business as usual' for Tradeshift and part of our commitment to enable buyers and sellers to transact compliantly.

Our founders played a central role in the **European Commission's PEPPOL initiative**, building e-invoicing and e-business infrastructure and standards that make it seamless for a supplier in any country to do business with a government in another country.

This first project inspired them to create Tradeshift, a single digital network that reimagines the way businesses worldwide connect, transact, and trade.

## We've got you covered.

Today, we support e-invoices in 71 countries and 10 Clearance Countries. (Check out our **global e-invoicing compliance map** to see the complete list of countries we support.)

Tradeshift has a proven process for delivering compliance, including meeting the complex needs of many countries adopting clearance models. This will continue for **France, Romania, Malaysia, Poland, Germany**, and more as we deliver clearance changes in 2024 and beyond.

Tradeshift acquired Babelway in 2018, a **leading B2B integration platform** that underpins its customers' integration and messaging needs. This acquisition provides the framework for Tradeshift to accelerate the rollout of new clearance needs.

## Bridging the data gap

Tradeshift also helps businesses overcome the potential data gaps we alluded to in Chapter Five. We do this by asking suppliers to participate in the data enrichment process and by deploying AI-assisted AP automation to further streamline the collection and verification of information outside mandated fields.

## New Clearance Flow and Seller Document Enrichment
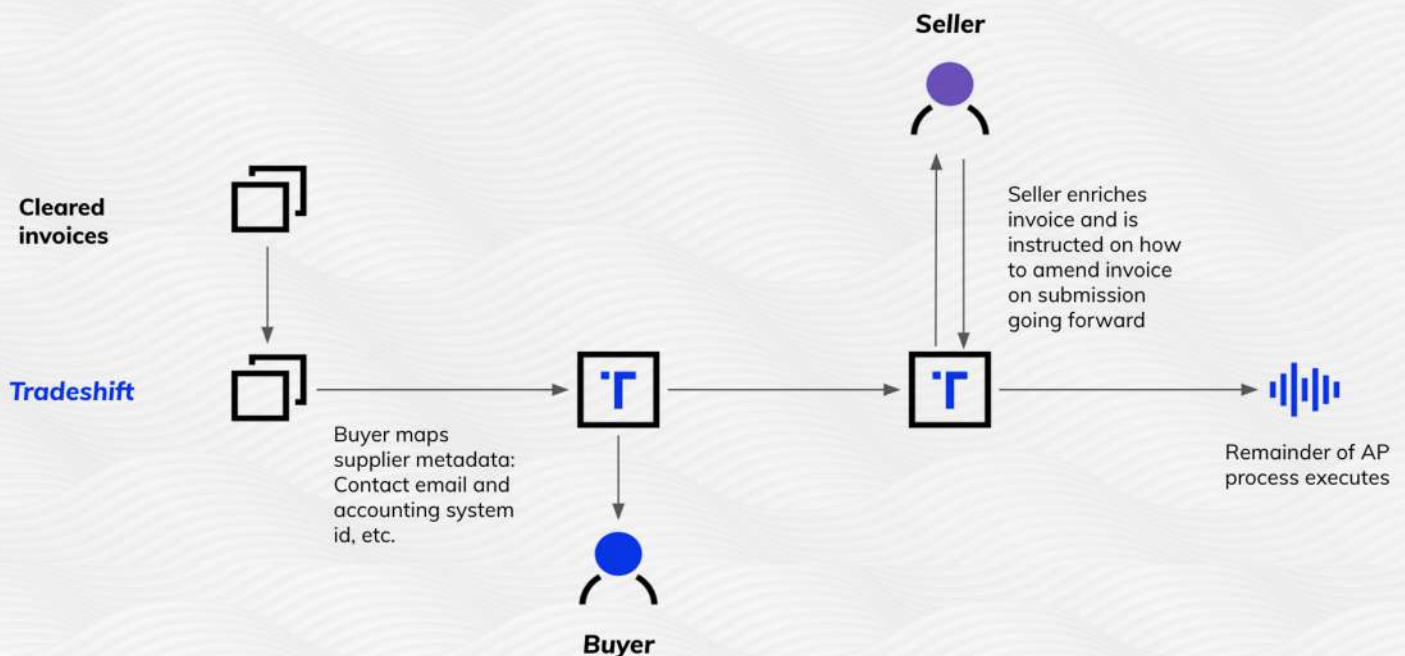


## World-first e-Invoicing compliance capabilities in China

Tradeshift is the first Western company to support Chinese Fapio invoices transmitted via the Golden Tax System.

We achieved a world-first by enabling companies doing business in China to send and receive compliant electronic purchase orders and e-invoices with cross-border trade partners, linking one of the world's largest economies to the rest of the world across the Tradeshift Network.

Today, Tradeshift remains the only platform on the market that allows Chinese buyers to handle global e-invoicing and transact with international sellers.

> *"We've been working with Tradeshift and its local partner Baiwang since August 2018 to support our domestic invoice verification in China. By automating the workflows associated with VAT input verifications, we have reduced the error rate from 7.4% to zero. Eliminating the need for manual correction has saved us significant time and resources on tax verification and reconciliation. We see similar potential for the cross-zone e-invoicing solution, and we expect to see growing efficiencies as more overseas suppliers are integrated onto the Tradeshift platform."*
>
> Jie Shen, Supervisor for Accounts Payable at Schaeffler Greater China

**Click here to learn why the Schaeffler Group chose Tradeshift to address e-invoicing complexity in China.**

## The World's Largest Trade Network

Partnering with Tradeshift means becoming part of a community of over 1 million+ digitally connected buyers and sellers worldwide.

Tradeshift's scalable, open **AP automation platform** offers seamless integration with any application you need to manage your supplier relationships. Further, our innovations in **B2B marketplaces** and **embedded fintech** mean that connecting to the Tradeshift platform can catalyse a wider-reaching transformation that drives more value and growth.

**Contact our experts to help you turn global compliance into a business advantage.**

**Tradeshift**