

Avalara

Tax compliance done right

E-invoicing and e-reporting models explained



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Agenda

- Setting the scene
 - Global E-invoicing mandate timeline
 - Terminology
- Post-Audit model
- Clearance model
- Continuous Transaction Control (CTC)
- Peppol (4 Corner model)
- Future of e-invoicing models & trends around the world?

About Avalara

Disrupting the status quo of global tax management since 2004

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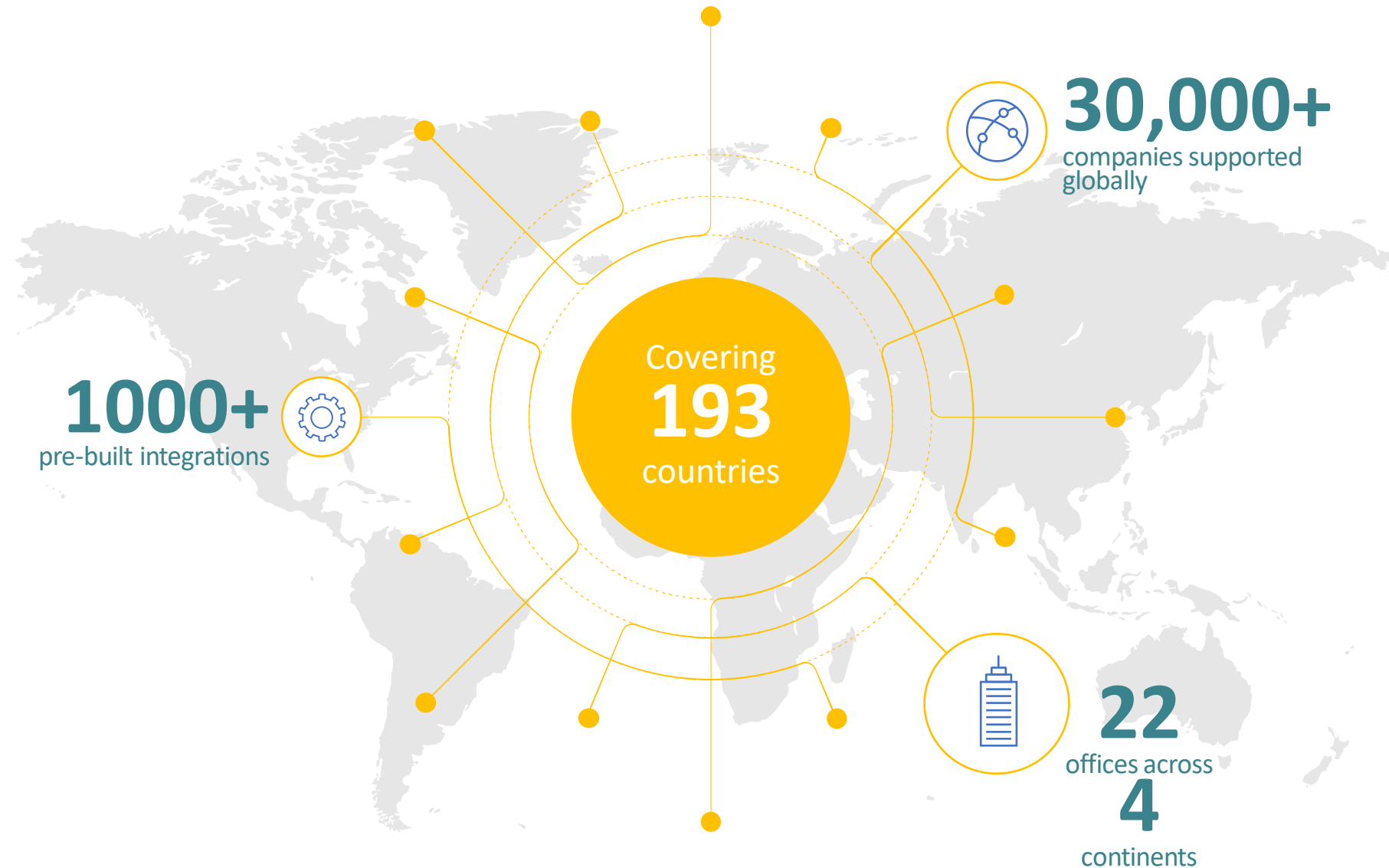
Provide a fast, easy and accurate way to manage transactional taxes

...

Our cloud-based tax automation has helped businesses of all sizes:-

- >  Achieve compliance
- >  Reduce risk
- >  Streamline processes

AVALARA MAKES TAX COMPLIANCE LESS TAXING



Avalara VAT Products – across lifecycle

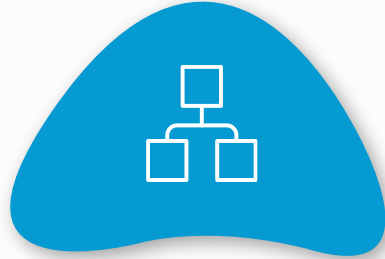


Registration

Indirect Tax Registrations

- VAT Registrations
- GST Registrations
- Fiscal Representation
- Sales & Use Tax Registrations

77 countries served by Avalara VAT Registration



Classification

Product Classification

- Self Serve Portal/conversational API
- Mass APIs

Avalara Item Classification offers HS code support for 180+ countries



Determination

AvaTax Global Tax Engine

- Sales & Use Tax
- VAT/GST
- Customs Duties
- Insurance Premium Tax

33.9 billion AvaTax API calls made by customers in 2021



Invoicing

Avalara E-Invoicing

- B2C, B2B, B2G E-invoicing
- Real Time Reporting
- Real-time clearance
- QR Codes
- PDF creation
- PEPPOL

Support for e-invoicing in 60+ countries.



Returns

Avalara VAT Reporting

- SaaS VAT Reporting
- Managed VAT Reporting service
- VAT, GST, SUT returns
- ECSLs, Intrastat
- Ledgers, SAF-T

Avalara processed and filed more than 4.1 million returns in 2021



Direction of travel: Timeline

Global E-invoicing mandate timeline

NOW

NEW

NEXT

2010 - 2021

2022

2023

2024

2025/6

- Brazil - NF-e electronic invoicing
- Argentina – e-facture (& QR B2C since 2021)
- Italy – B2B/B2C (extension of B2G)
- India – B2B, QR codes B2C
- Colombia – e-invoice CUFE
- Mexico, Bolivia, Costa Rica, Chile, Ecuador, Peru, Paraguay
- South Korea, Indonesia, Taiwan, Vietnam
- Turkey
- Portugal – use of certified invoicing software
- EU – B2G (optional pan-EU using Peppol or individual mandates)
- KSA – Fatoorah e-invoicing (Phase 1) + QR
- Peppol – (Norway, Iceland, Australia, New Zealand, Singapore)
- Greece - MyData VAT books – can send invoice data via e-invoices

- Portugal – QR code on invoice
- Poland – KSeF e-invoicing voluntary phase
- Italy
 - extension of SDI e-reporting to cross-border
 - extension of SDI e-invoicing to SMEs
- Romania – e-Factura e-invoicing pilot
- Belgium – Peppol B2G e-invoicing (Sep 22)
- EU VAT in Digital Age proposal (Oct 22)

- Serbia – B2B e-Faktura
- KSA – Fatoorah e-invoicing phase 2
- Portugal
 - Invoice SAF-T for non-residents
 - digital signatures required on non-EDI e-invoices
 - ATUD pre-clearance codes
- Serbia – B2B e-invoicing
- Australia - “Business e-invoicing Right” for Enterprise (tbc – July 23)
- China – e-fapiao e-invoicing
- Japan – Tax Qualified e-Invoices (Peppol – tbc)
- Philippines
- UAE – B2B e-invoicing (tbc)
- Oman – B2B e-invoicing (tbc)
- Australia – Peppol B2G e-invoicing
- New Zealand - Peppol B2G e-invoicing

- Poland – KSeF B2B e-invoicing mandatory
- France – B2B e-invoicing and e-reporting (July 24)
- Spain – B2B e-invoicing & invoice software certification
- Belgium – Peppol B2B e-invoicing (anticipated)
- Slovakia – IS EFA B2B/B2C e-invoicing
- Romania – B2B e-Factura e-invoicing (tbc)
-

- EU VAT in Digital Age – e-invoicing and e-reporting reform?
- Germany – B2B e-invoicing (tbc)
- Latvia – B2B Peppol? (tbc)

Terminology ...

Can be complex, confusing and always evolving

Generic

- Electronic invoice
- EDI
- Clearance / Post-audit model
- Real-time reporting
- VAT return death
- Service provider
- E-invoice portal
- Long-term invoice archiving
- Digital signature
- WebServices
- XML data
- Schema

Specific

- UBL
- PDF/A-3
- SAF-T
- Sdl (Sistema di Intercambio)
- FatturaPA
- EDIFACT
- ZUGFeRD
- X-Rechnung or **FacturX**
- **PEPPOL**
- **EESPA**
- **Continuous Transaction Controls (CTC)**

Specific

- Voluntarily vs Mandated e-invoicing
- VAT gap
- End-point
- **4 Corner model**



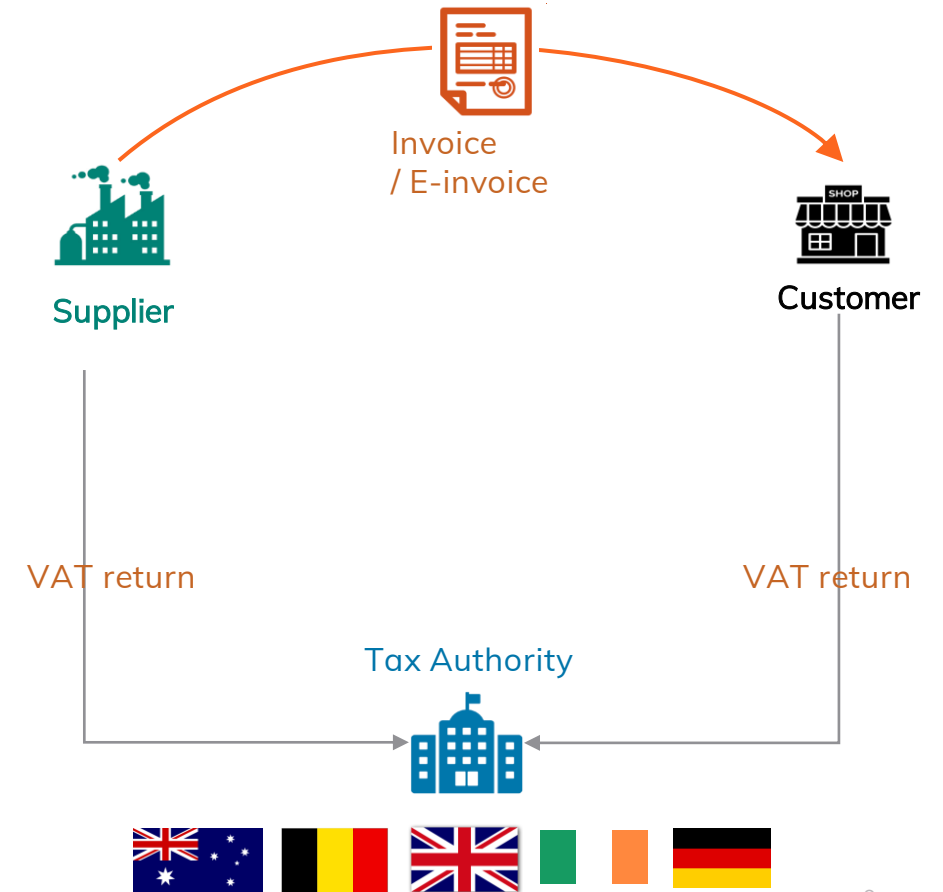
How e-invoicing models differ

Post-Audit Model (Post-Issue Audit)

Traditional and legacy approach to invoice issue and tax authority audit

Post-Audit Model (Post-Issue Audit)

- Supplier sends invoice to the customer direct.
- Where no mandate - paper invoice and e-invoice have parity.
- Supplier only submits invoices or invoice data to the tax authority upon request or through digital reporting requirements (in some countries).
- Supplier is responsible for authenticity, integrity and legibility of the invoice and archiving (business controls).
- Periodical VAT reporting through summary VAT return
- Tax data and documentation requested or reviewed weeks, months or years after a transaction took place and after a VAT return submitted.
- Tax audits generally based on sample of data/documents.
- Tax authority may issue assessments or issue penalties for inaccuracies or errors.
- Status quo in majority of European countries.



E-Invoicing under Post-Audit Model

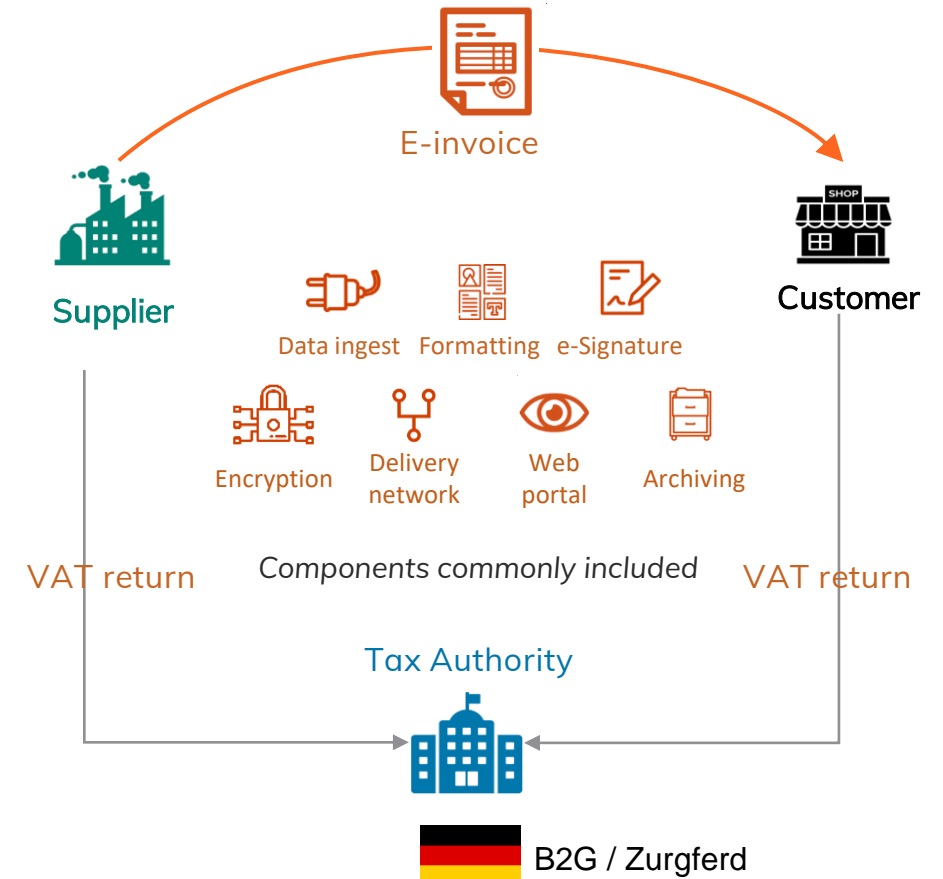
Key features

Post-Audit Model (Post-Issue Audit)

- Tax authority may stipulate controls and requirements
- More formal / rigid under a mandate (vs voluntary use)
- E-invoice (structured data) sent direct to customer, generally by:
 - Directly (peer-to-peer) or
 - via a service provider

Allows fully automated invoice processing.

Standard PDFs exchanged via email - acceptable in some countries but not true e-invoicing (and may be subject to specific controls e.g. Portugal not mandated e-invoicing but requires digital signature on non-EDI e-invoices)

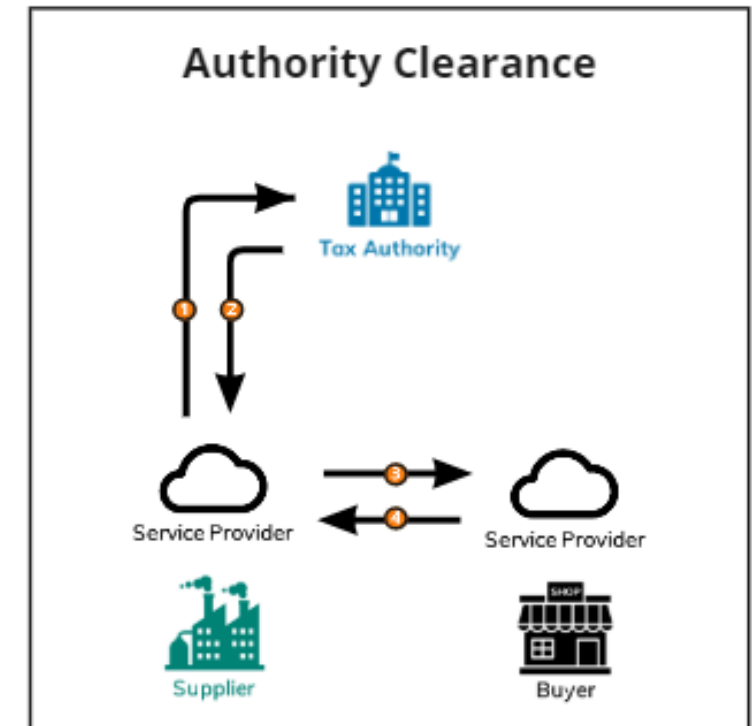


Clearance Model (Pre-Issue Clearance)

New and future approach to invoice issue and tax authority audit

Clearance Model (Pre-Issue Clearance)

- Supplier send invoice to the tax authority first (before sending it to the buyer) e.g. via Government portal.
- Tax authority approves (or even issues) the invoice.
- Tax authority checks the invoice for authenticity, integrity legibility through semantic and logic checks on structure, format, syntax, content, customer and supplier master data, digital signatures.
- Tax authority can reject invoice – meaning invoice not legal tax invoice and can not be issued to (or received by) customer.
- Tax authority has full transactional data from each e-invoice in real-time including tax information.
- Tax authority uses “Continuous Transaction Controls” (CTCs) to identify errors or fraud across entire data set / transaction.
- Status quo in majority of LATAM countries and early adopters in EMEA



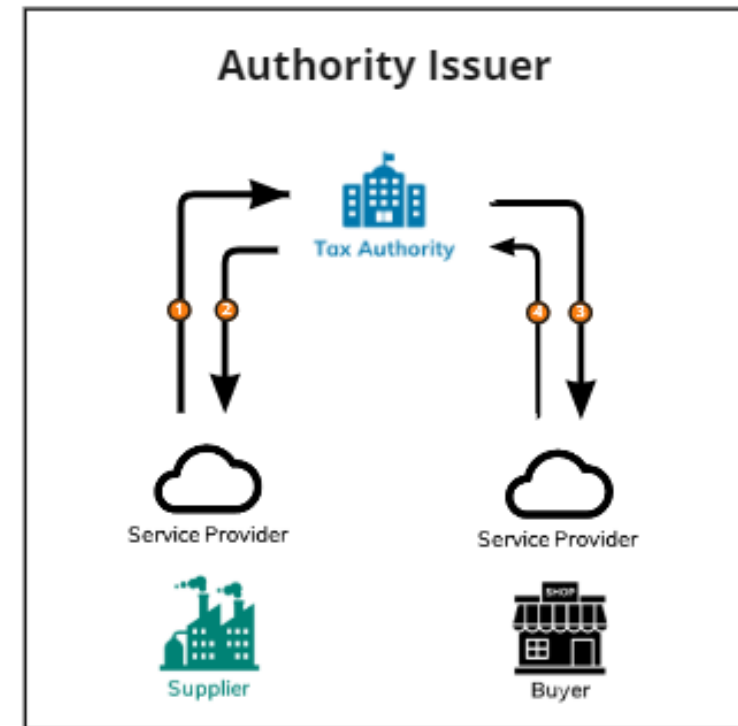
Invoices are cleared to issue by an authority



Clearance Model – Authority Issuer

Government / Tax Authority issues e-invoice on behalf of seller

- Government can be more involved and own the actual e-invoicing network.
- E-Invoice issued by Government portal to the customer (not direct from business to business (or provider to provider))
- Italy's Sistema di Interscambio (SDI) is example of this.
- e-invoice sent to the Sdi Italy which approves (clears) the e-invoice and sends it to the customer



Invoices are issued through an authority



Digital signature



DIGITAL SIGNATURE

- A Digital Signature represents the process of encoding a digital document to prevent tampering.
 - Mathematical technique to validate authenticity and integrity of a digital document (invoice)
 - A 'lock' on a document

- an advanced or 'qualified' electronic signature
- Government may create or define standards
- Validation is typically performed by trusted certificate authorities or trusted service providers
- Identifies seller and confirms the continued integrity of the data in the document (for lifetime of e-invoice)



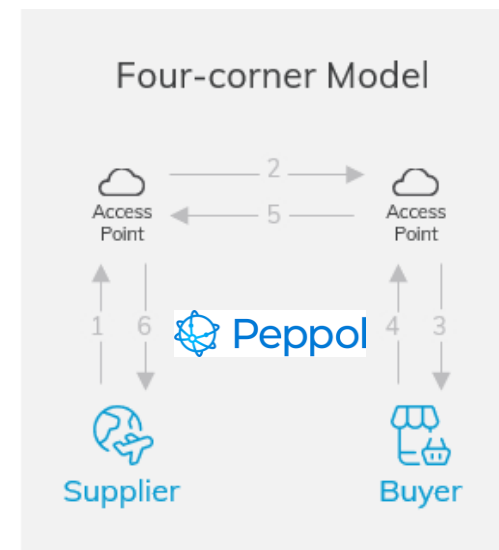
The PEPPOL Network

PEPPOL

Pan-European Public Procurement On-Line

- Set up in 2008 to set common standards for public procurement across EU (B2G)
- Peppol is both a delivery network and standard specifications for e-invoicing (and other procurement processes)
- Meets European e-invoicing standard (EN 16931)
- Access only through 'Access Points' and Certified Providers
- Managed by the OpenPEPPOL Association
- EU27 + Expansion across APAC:
 - Australia, New Zealand, Singapore, Japan

- Peppol BIS Billing 3.0 – this is a compliant implementation of the European e-invoicing standard.
- Network built on “4-Corners”



Invoices delivered over an interoperable network

4-Corner model

- Under the four-corner model, there are 4 corners underpinning the issue, exchange and receipt of e-invoices, namely:

C1 – Sender of Invoice (C1 sends e-invoice to C2)


C2 – Service Provider (C2 sends e-invoice to C3)

C3 – Service Provider (C3 send e-invoice to C4)

C4 – Receiver of Invoice (C4 receives e-invoice from C3)

- Senders and receivers of e-invoices (C1 and C4) utilise their own choice of system/software (de-centralised) and can exchange any document type.

- Service providers convert documents to standard specifications.
- Each sender and receiver only need one service provider.
- The end user has free choice of which service provider to use and is not locked into a service provider and can change.
- There are no fees charged between service providers but service providers charge their own customers, usually on a per document basis.
- Requires dynamic discovery to locate other service providers and end user (Directory)



Continuous Transaction Controls (CTC)

Continuous Transaction Controls

- Continuous Transaction Controls (“CTC”) is a generic term to describe the digital control mechanisms used by tax administrations to improve the management of indirect tax by collecting transactional invoice data in real, or near-real time.
- This is seen as a way to significantly reduce the VAT gap.
- Embedding CTCs within a 4-corner model involves bolting on 2 additional corners. A copy of the invoice or a subset of the invoice data, will be sent through to a service provider (C5) that acts on behalf of the Tax Authority (C6).
- Creates a 6-corner model
- It has been suggested that the European Commission (and several European tax authorities) are considering recommending the implementation of a Decentralised Peppol e-invoicing with CTCs and Exchange.
- Triangulate data with SAF-T and other e-reporting or digital reporting requirements.

Real-Time
Reporting
(RTR)

Live Reporting
(LR)

Continuous
Transactions
Controls (CTC)

Transactions
Based Reporting
(TBR)

EESPA

European E-invoicing Service Providers Association

- Formed in 2011, Belgium
- Initiative by the private sector to create a European trade association for e-invoicing service providers
- (companies providing network, business outsourcing, financial, technology and EDI services)
- International Not-for-Profit Association
- Avalara is a member



OpenPeppol and EESPA join forces to use a common Interoperability Framework

...

The leadership in both associations recognises that the parallel deployment of two very similar instances of the same overarching interoperability framework will create confusion in the market and reduce efficiencies.

As a consequence, both organisations see a strong business case in joining forces and working towards a common framework, based on multi-stakeholder governance...

Factur-X – a hybrid PDF

Human and Machine readable

- Businesses can't simply scan paper invoices or create and send standard PDFs.
- Factur-X is a hybrid document that combines both a human readable PDF with machine readable XML language.
- Standard has been developed through cooperation between France's National Forum for Electronic Invoices and Electronic Public Contracts (FNFE-MPE) and Germany's Forum elektronische Rechnung Deutschland (FeRD).
- Identical to ZUGFeRD 2.2. in Germany.
- Will likely be a preferred format in France (July 2024) – closer to today's business as usual and can be read easily by a person (so more business friendly)



Forum for Electronic Invoicing Germany

Avalara e-Invoicing solution

Key features

- Invoice Data Conversion
 - From & to many e-invoicing formats, communication protocols, and standards (EDIFACT, XML, PDF, VDA, IDOC, Factur-X, PEPPOL, and others)
- Encryption of Invoice Data for highest security
- Transmission of Invoice Data
 - Transmission to business partners, short-term data storage
- Long-term Digital Archiving
 - Invoice archiving in compliant 'audit-proof' manner
- Digital Signature for invoice authentication
- QR code generation
- Portal and Monitor
 - Easy invoice management via own E-Invoicing Portal and Monitor to view e-invoices in readable format. for upload, download, storage, and notifications
- Seamless integration via WebServices, sFTP, HTTP, API, etc.



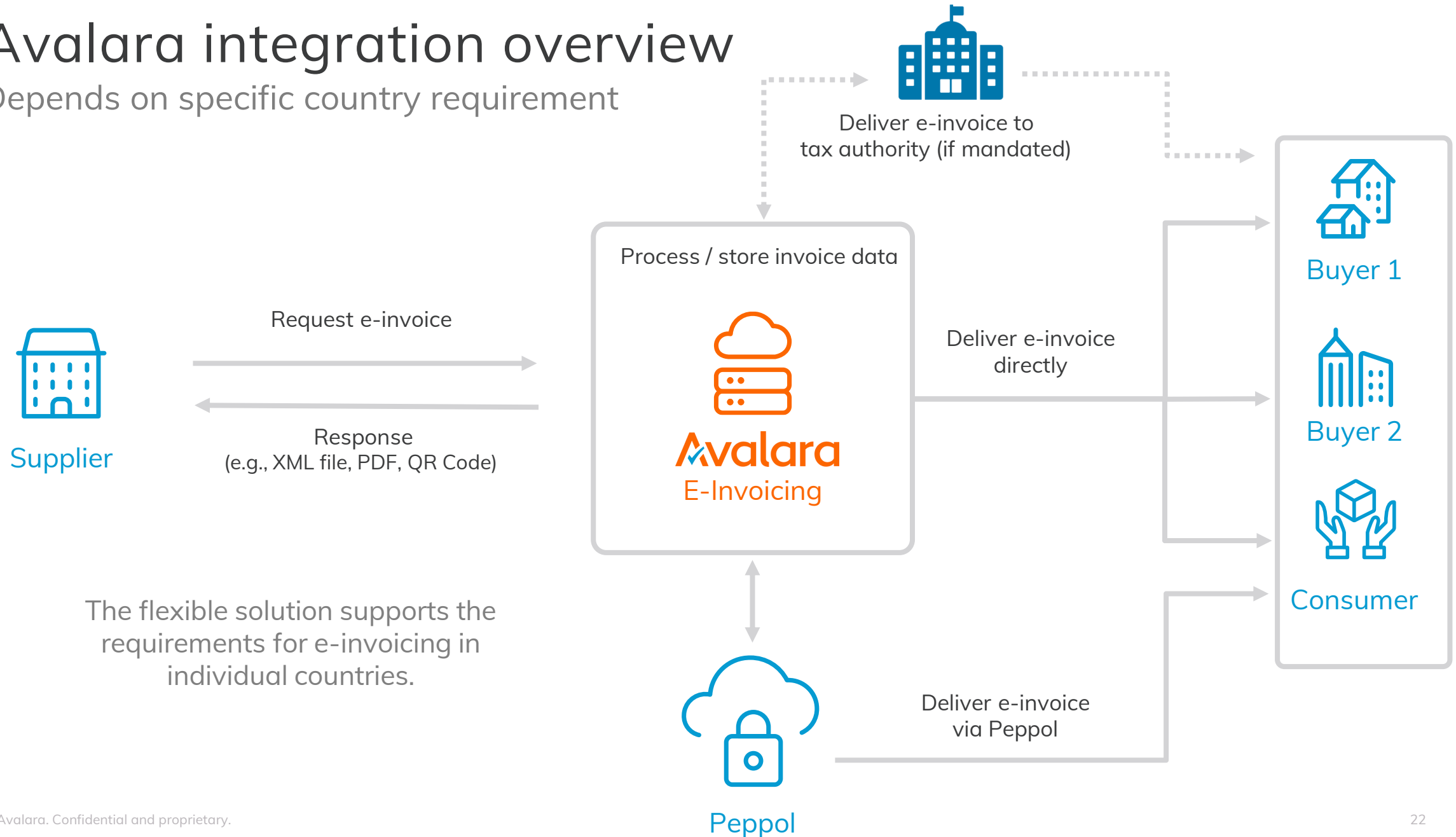
E-Invoicing

Adhering to
e-invoicing rules
in 60+ countries.

- List of countries continuously expanded.
- Updates based on new specifications and tax authority changes
- Single, scalable and global

Avalara integration overview

Depends on specific country requirement





Potential to harmonise e-invoicing
models around the world?

Future of e-invoicing?

Key trends and predictions

- PEPPOL expansion – more countries will jump on the Peppol train
 - Australia, NZ, Singapore, Japan
- VAT in the Digital Age
 - removal of barriers for e-invoicing mandates (derogation replaced by notification)?
 - promotion of EU e-invoicing standard as optional format for businesses to use
 - new pan-EU Digital Reporting Requirements (real-time, transactional level, B2B/B2G, non-clearance)
- Increased use of QR codes (following Switzerland, Portugal, KSA .. Spain in 2024)
- Ultimately every country will introduce mandatory e-invoicing – pre-clearance models applying Continuous Transaction Controls.
- Harmonisation?
 - new PEPPOL INTernational document model (PINT) provides greater global interoperability
 - EU standard (EN 16931)
 - Factur-X
- E-reporting for B2C



Thank you.

Q&A

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Avalara
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