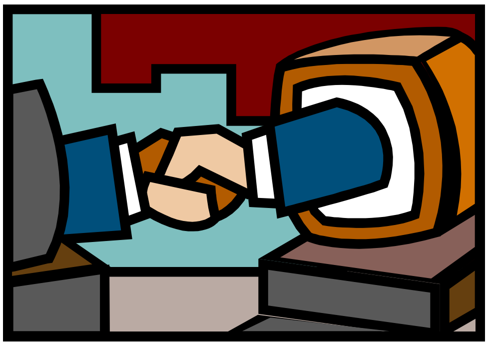
E-ECSB

Electronic Invoicing Challenges In Europe



Business Challenge

European businesses have been pursuing paperless invoicing for years to increase efficiencies, reduce errors, improve responsiveness to customers, and reduce the amount of paper that must be handled, data that must be interpreted and re-keyed. VAT compliance is a huge overhead for European businesses. This includes storing and retrieving information for varying lengths of time (depending on country rules) that must be provided to VAT auditors.

Businesses began the process of sharing electronic invoicing information in EDI formats through Value Added Networks, (third party providers using EDI). This effort helped large businesses gain efficiencies, but did not address the issue of satisfying VAT auditors with electronic information.

European Commission Response

In its original response to the industry regarding a standardised approach to cross-border invoicing, the European Commission issued invoicing rules in the 1977 6th Directive (77/388/EC). The rules stipulated the content of the invoice, including the VAT amount and VAT Rate. The inclusion of additional information was left up to the (then) 15 member states. One particularly problematic issue left unspecified was electronic invoicing, meaning that businesses had no guidelines regarding acceptable standards for exchanging or storing electronic invoices.

Left with the option to do so, the 15 member states developed 15 different sets of VAT invoice requirements. This was compounded by rules in some countries that allowed and even encouraged electronic invoicing, and rules in other countries disallowing the practice.

In response to concerns from business, the Commission gathered input from concerned industry representatives and issued an amendment in the form of the EC Directive on Invoicing (2001/115/EC). This directive provided a single European standard for Invoice content for VAT, and allowed for electronic invoicing and storage within all member states.

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Business Issues

Despite the best intentions of providing a unifying business practice for electronic invoicing and storage, the framers of the Directive were faced with the challenge of balancing business and taxation needs. By necessity, they arrived at compromises that left provisions of the directive open to interpretation. The result is varying interpretations between the now 25 member states. Some aspects are relatively consistent, such as the use of EDI (broadly interpreted), while others are not, such as storage of electronic invoices and format of retrieved data for VAT audit purposes. The use of XML protocols favoured by smaller businesses that don't necessarily meet the criteria stimulated for EDI also are problematic.

The end result is that businesses engaged in cross-border activity within the EU do not have clear standards or guidelines on which to conduct electronic business. Even domestic businesses are affected. "Stricter requirements, imposed by individual tax administrators, may slow down or prevent the greater use of electronic trading and reduce the efficiency of domestic businesses, in comparison with counterparts in other Member States"[1].

CompTIA Response

CompTIA, the trade association for the ICT industry, works with a number of businesses in the European computer supply chain to help identify and address industry-wide problems. Several CompTIA members raised the electronic invoice issue shortly after publication of the EC Directive on Invoicing (2001/115/EC). Many in the business community intent on utilising electronic invoicing expected to rely on the directive, but instead they found themselves with no clear idea of what was allowed.

Several businesses working with CompTIA, including Hewlett-Packard, Canon Europe, and Fujitsu Siemens Computers identified the need for a matrix which could serve as a central repository of the necessary information. It became clear almost immediately that developing this matrix was going to be problematic as there was no single source of information. Each of the 25 Member States provided this information separately and in no consistent manner.

CompTIA then suggested that this matrix could be developed by putting together a Cornerstone initiative that would pool the resources of other companies who faced the same problem. CompTIA ultimately engaged the assistance of Arrow Electronics, Canon Europe, Freescale Halbleiter Deutschland, Fujitsu Siemens Computers, GE Commercial Distribution Finance, Hewlett-Packard Ingram Micro and Tech Data to develop the matrix requirements and raise the necessary funds to complete this effort. CompTIA then engaged PricewaterhouseCoopers to conduct the actual survey of all existing regulations that have been written in response to the EC Invoice Directive.

[1] Dave Watt, HM Customs & Excise, UK

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PricewaterhouseCoopers

At the request of CompTIA, PricewaterhouseCoopers developed the CompTIA EU Electronic Invoicing and VAT Compliance Requirements Publication. The publication provides country-specific differences in rules applicable to electronic invoicing, electronic VAT compliance, electronic signature, archival and storage in the 25 EU Member States. It also provides an overview of the main issues which are creating bottlenecks for cross border implementations, and provides guidance as to which countries are examples of "best practices".

PwC also developed a matrix showing the VAT rules applicable as to electronic invoicing, electronic signatures and electronic archiving in the 25 EU Member States. This information is broken down into three parts: Content of Invoice, Electronic Invoicing, and Archiving. In each of the three sections the Matrix provides the parameters from the Directive, followed by columns headed by the names for each of the 25 EU members. Each cell in the matrix describes whether or not the individual country is compliant with, or has additional requirements for the particular parameter from the Directive.

An overview of the publication is provided below. For more information regarding the publication please see CompTIA Contact Information at the conclusion of this document.

Content of an Invoice

Under the European Council Directive 2001/115/EC of 20 December 2001 (hereafter referred to as the European Invoicing Directive) the mandatory contents of an invoice are as follows:

- Date of issue of the invoice
- A sequential number, based on one or more series, which uniquely identifies the invoice
- VAT identification number of supplier
- VAT identification number of customer in case where the customer is liable to pay the VAT due[2]
- Full name and address of supplier
- Full name and address of customer
- Quantity and nature of the goods supplied or the extent and nature of the services rendered
- Date of supply of goods or rendering of services or date on which payment of account was made if different from invoice date
- Price per unit
- Any discounts or rebates not included in the unit price
- Taxable amount per rate or exemption
- VAT rate applied
- VAT amount payable in the national currency
- Where an exemption is involved or where the customer is liable to pay VAT, reference to the provision of the 6th Directive, the national legislation or any other indication
- Where the person liable to pay the tax is a tax representative; the identification number for VAT purposes, together with full name and address[3]
- Local requirements not in compliance with the Directive[4]

[2] Additional rules apply in Austria, Belgium, Czech Republic, Greece, Lithuania, Portugal, Slovak Republic, and Spain.
[3] Depending on the Member State, this reference may be to the Directive, the corresponding national provision, an indication that the supply is exempt or subject to the reverse charge procedure, or a combination thereof.
[4] This includes Belgium, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia

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In addition to these elements, national VAT legislation also requires additional items, which in fact are contrary to the European Invoicing Directive[5].

- Belgium: capacity of the VAT representative
- Czech Republic: Specific currency requirements
- Greece: reference to delivery note (if applicable)
- Hungary:
    - Statistical number of the product if reduced rate or VAT exempt
    - Method of payment and due date for the payment
    - Number of copy and total number of copies
    - Page number and total number of pages
    - Total taxable amount
    - VAT amount per VAT rate
    - Total amount inclusive VAT
    - Specific language requirements
- Italy:
    - Capacity of the VAT representative
    - Reference to transport documents (if applicable) in case of deferred invoices
    - Arm's length value of the product in case of discounts or rebates
    - VAT amount per VAT rate
- Malta: the type of supply by reference to a predefined category
- Poland:
    - Statistical number of the product if reduced rate or VAT exempt
    - Total amount due in figures and words
- Slovak Republic: reference to the Member State of arrival for intra-Community supplies of goods/services

[5] Although these variations are technically illegal, the EC prefers to work proactively with the various Member States to resolve outstanding issues rather than seek legal redress.

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Electronic Invoicing

In order for electronic invoices to be VAT compliant, two general conditions exist. There needs to be acceptance by the customer, and there needs to be a guarantee of authenticity of origin and integrity of content. The accepted means of guarantee include the use of EDI; advanced electronic signature, or other electronic means. The use of other electronic means is optional by each Member State.

	AT	BE	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	PL	PT	SK	SL	ES	SE	NL	UK
1																									
2																									

1. Obligation for prior notification towards the VAT authorities (until 31 December 2005)
   Yes
   No
2. Customer acceptance of electronic invoices required
   Explicit acceptance
   Implicit acceptance

Electronic Invoicing Challenges In Europe

EDI

EDI has been defined as an electronic transfer from computer to computer using an agreed standard to structure the message in a computer readable format that can be automatically, unambiguously processed. Furthermore, the agreement relating to the exchange will need to provide for the use of procedures which guarantee authenticity of the origin and integrity of the data.

Member States have the option to require the creation of a summary statement on paper. This is the case in Germany, Greece, Hungary, Portugal and the Netherlands.

	AT	BE	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	PL	PT	SK	SL	ES	SE	NL	UK
1																									
2																									

1. Acceptance of EDI to send e-invoices
   - No (Infringement)
   - Yes
2. Obligation to issue paper summary document
   - Yes
   - No

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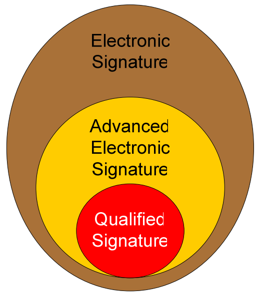
Advanced/Qualified electronic signatures

This provision refers to article 2 (2) of the European Directive on electronic signatures. An advanced electronic signature has the following characteristics:



- Connected to the signer in a unique way
- Possible to identify the signer
- Realisation under exclusive control of the signer
- Possible to trace every change afterwards

Optionally, Member States can require the electronic signature to be based on a qualified certificate created through means of a secure-signature creation device. This is required in Cyprus, the Czech Republic, Germany, Greece, Italy, Latvia, Lithuania, Malta, Portugal, Slovenia and Spain.

	AT	BE	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	PL	PT	SK	SL	ES	SE	NL	UK
1	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	red	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise	turquoise
2	turquoise	turquoise	yellow	yellow	turquoise	turquoise	turquoise	turquoise	yellow	yellow	turquoise	turquoise	yellow	yellow	yellow	turquoise	yellow	turquoise	yellow	turquoise	yellow	yellow	turquoise	turquoise	turquoise

1. Acceptance of ‘advance e-signatures’ to send e-invoices
   - (red) No (Infringement)
   - (turquoise) Yes
2. Obligation to use a qualified certificate and a secure signature-creation device
   - (yellow) Yes
   - (turquoise) No

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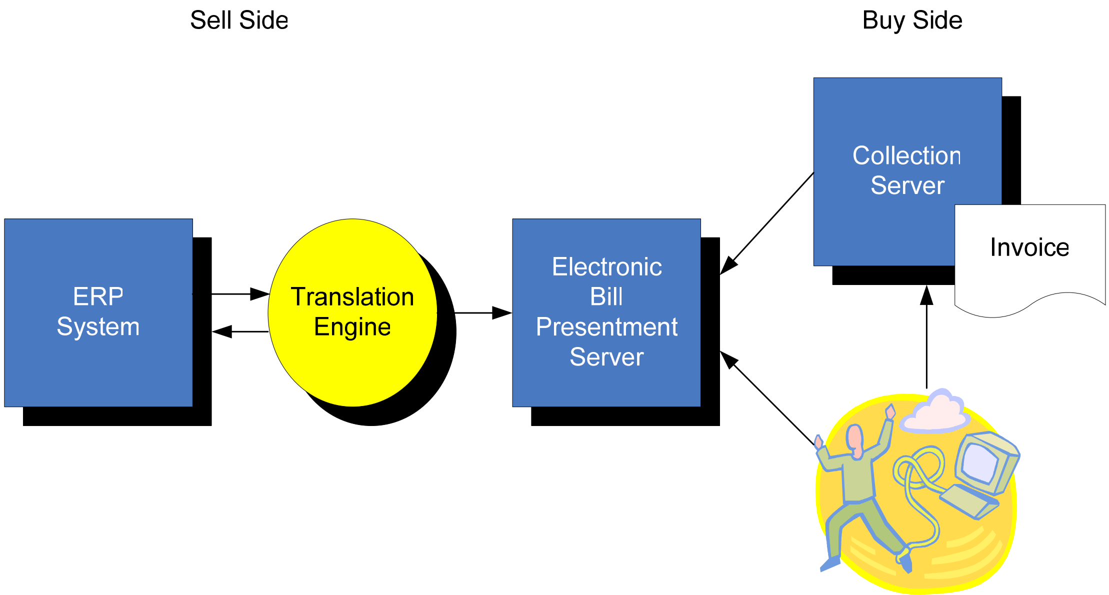
Electronic invoicing through other electronic means



This form of invoicing is only accepted if the Member State(s) concerned accept other electronic means to invoice electronically. The following Member States allow other electronic means: Belgium, Cyprus, Denmark, Estonia, Finland, Ireland, Latvia, Spain, Sweden, The Netherlands and the United Kingdom

	AT	BE	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	PL	PT	SK	SL	ES	SE	NL	UK
1																									

1. Acceptance of "other electronic means" to send e-invoices
   No
   Yes

A taxable entity that wants to send invoices electronically to its counterpart, must comply with the rules of the EU Member State where the transaction takes place for VAT purposes.

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Electronic Archiving

Place of Storage

Organisations are obliged to store sales and purchase invoices. As a principle, invoices can be stored any place and on any medium, as long as there are guarantees as to integrity, authenticity and readability.

However, Member States can impose conditions on place of storage regarding[6]:

- Need for notification if storage abroad
- Limitations of the storage to countries where mutual assistance agreements exist
- Need for full on-line access

	AT	BE	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	PL	PT	SK	SL	ES	SE	NL	UK
1	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	No	No
2	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	No
3	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	Yes	No	No

1. Tax authority must be notified if storage outside the Member State of establishment:
   - Yes
   - No
2. Storage must be in electronic form and guarantee full on-line access:
   - Yes
   - No
3. Storage is only allowed in countries with which a legal instrument exists relating to mutual assistance:
   - Yes
   - No

[6] Additional restrictions apply in some cases.

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Format of Storage

Member States can also impose conditions on the format of storage[7]:

- Storage of original format
- Storage of data guaranteeing the authenticity of origin and the integrity of content

	AT	BE	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	PL	PT	SK	SL	ES	SE	NL	UK
1	No	Yes	Yes	No	No	No	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No
2	No	No	Yes	No	No	No	No	No	Yes	No	Yes	No	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No
3	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

1. Invoices received must be stored in original format:
   Yes
   No
2. Invoices issued must be stored in original format:
   Yes
   No
3. Data guaranteeing the authenticity of the original and the integrity of the content must be stored:
   Yes
   No

The duration of storage is not harmonised throughout the EU.

For the sales invoices, the archiving rules of the Member State where the transaction takes place for VAT purposes apply . For the purchasing invoices, the rules of the Member State where the taxable person is established are applied.

[7] The requirements are not clear in some cases.

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Main Conclusion

In conclusion, CompTIA and PricewaterhouseCoopers have determined the EC Directive on Invoicing (2001/115/EC) has provided a solid basis for businesses in the European Union to seriously pursue the benefits for electronic invoicing. However, challenges remain which prevent full utilisation of this process throughout the 25 Member States:

- Content of the invoice
  - A number of EU Member States do not comply with the 6th Directive
- Electronic Invoicing
  - A number of EU Member States do not comply with the 6th Directive
  - There are "best practice countries" that could serve as example
  - There are countries making adoption by business still very hard
- Electronic Archiving
  - Adoption of an EU wide archiving solution may be very difficult
  - Centralised storage remains difficult or impossible
  - Digitising paper invoices still is not accepted throughout the EU

Recommendations for the way forward

CompTIA believes that the most practical first step in achieving electronic invoicing harmonisation is to work with members of industry to develop practical implementation based criteria for "Best Practice Countries", such as Belgium, Denmark, Estonia, Finland, Ireland, Sweden, the Netherlands, and the UK.

CompTIA also intends to propose possible actions to the European Commission (DG Taxud and DG Enterprise/Markets) for consideration. The Commission is expected to accept comments through the end of 2008 in anticipation of a issuing a revised directive.

CompTIA Contact Information

If your company is interested in more information, or would like to know more about CompTIA's efforts to work with industry to adopt best practices for cross-border electronic invoicing, please contact Jeff Elliott, CompTIA Electronic Commerce Program Manager, JElliott@CompTIA.org, +1 630 678 8325. More information regarding the CompTIA EU Electronic Invoice and VAT Compliance Requirements Publication may be found at http://www.comptia.org/sections/docs/CompTIA_EI-VAT_Promotion.pdf. Please send all queries regarding this publication to ECSB@CompTIA.org.