

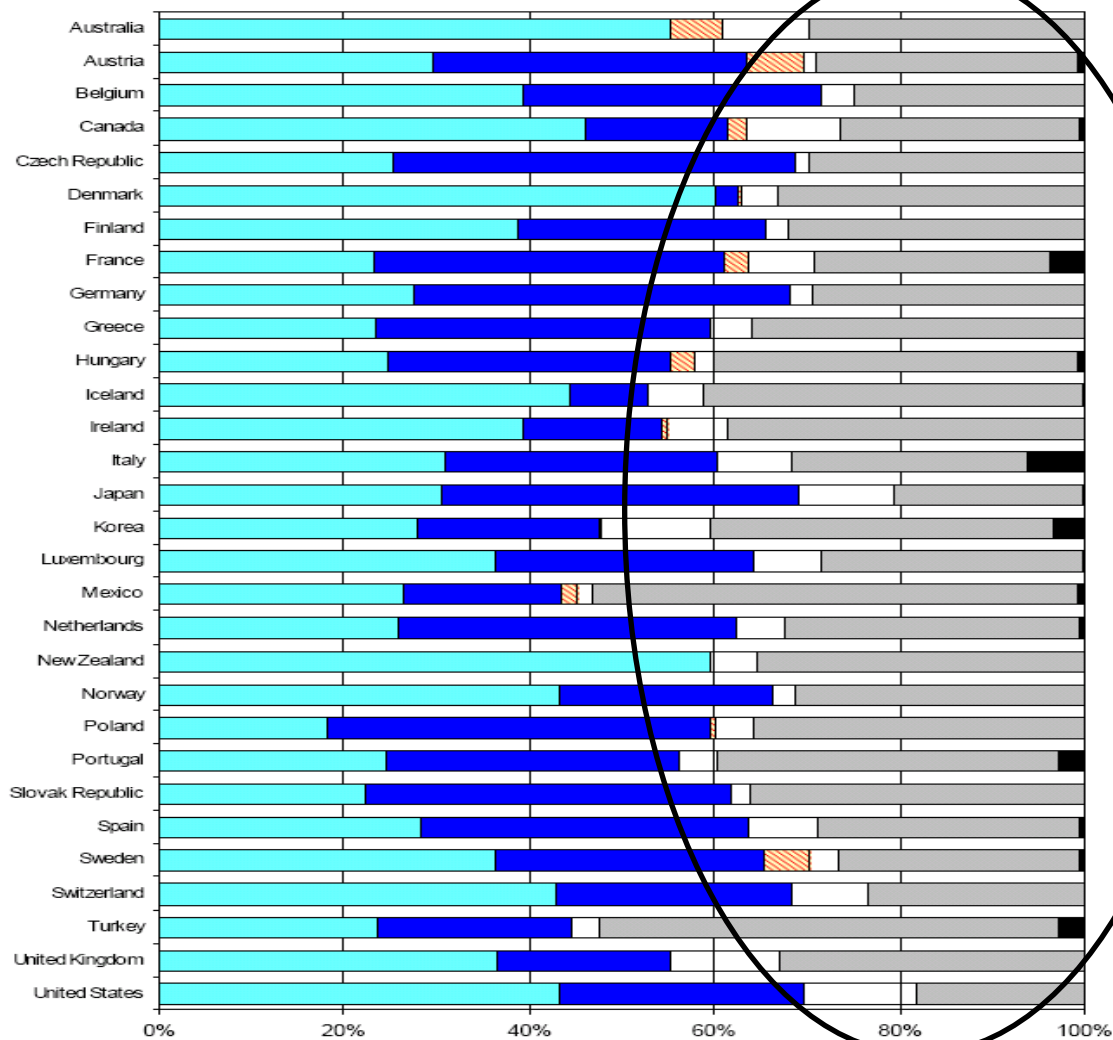


## EU e-invoicing 2013: facelift or bypass?



# The value of VAT

1000 Income and profits   2000 Social security   3000 Payroll   4000 Property   5000 Goods and services   6000 Other



← Approximately 30% of all taxes, which represent over 30% of GDP in OECD countries

- Art 232 – recipient must accept to receive e-invoice
- Art 233
  - 1) integrity, authenticity and legibility for all invoices. Free choice of method. If supply is proven with business controls establishing a reliable audit trail between invoice and supply, it complies
  - 2) For e-invoices, examples of integrity and authenticity methods:
    - AdES
    - Contract-based secure EDI

- Art 247
  - MS can require storage in original form
  - MS can require the data guaranteeing the authenticity of the origin of the invoices and the integrity of their content, as provided for in Article 233, also be stored by electronic means.

## ■ Last minute press attention



- Swedish online press
  - Absurd, sad requirements
  - We have low requirements and low fraud



- Reaction from another MS
  - Not more masochistic than other companies
  - Protection against random and intrusive audits

More choice, not more certainty

Business controls

EDI

E-signatures

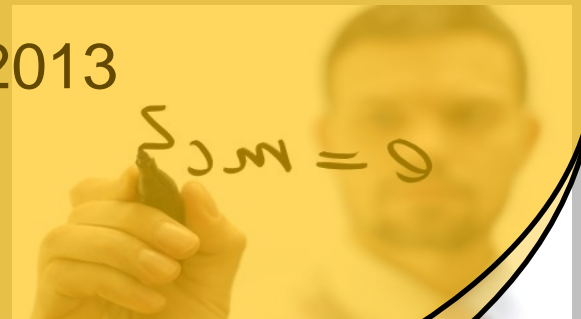
historian/ detective

Corroborate, substantiate claims: documentation, audit trails, e-discovery...

mathematician

1+1=2

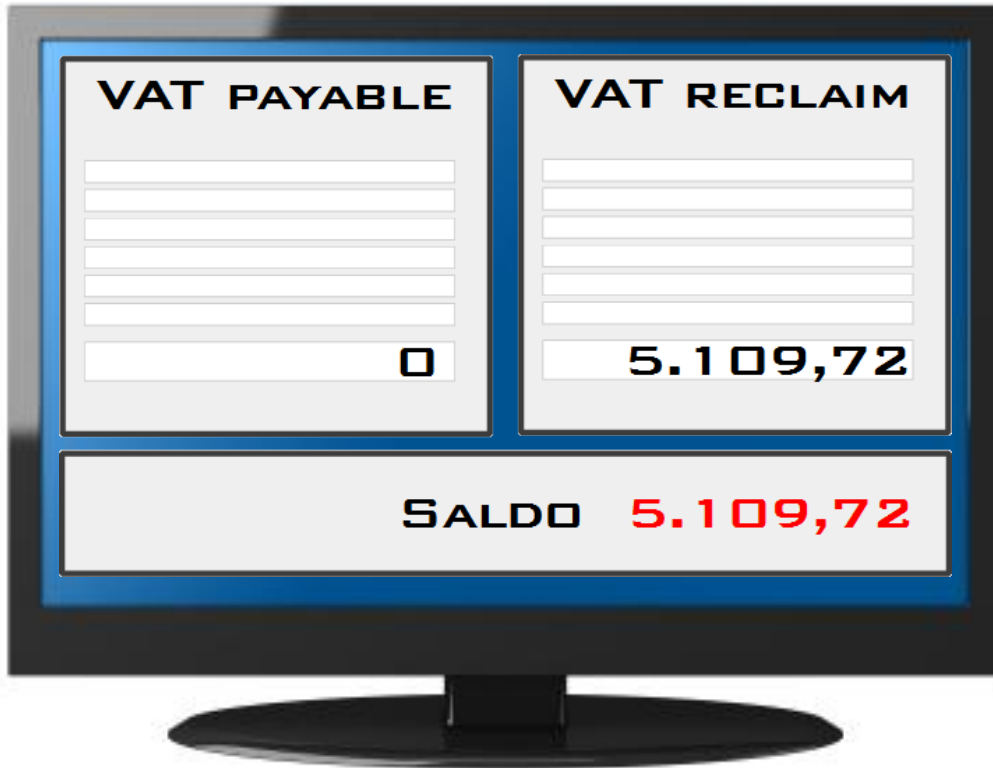
from 2013 2004-2013



Process-driven

Technology driven

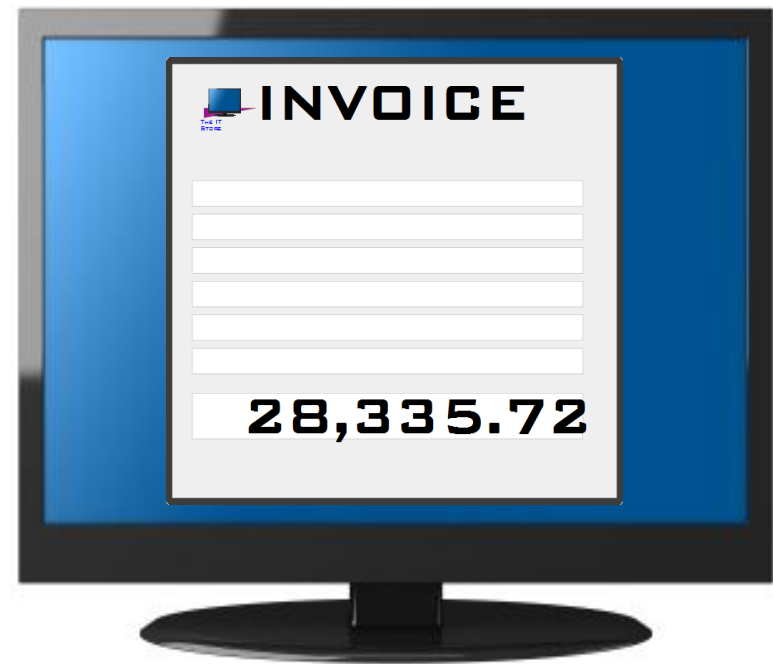
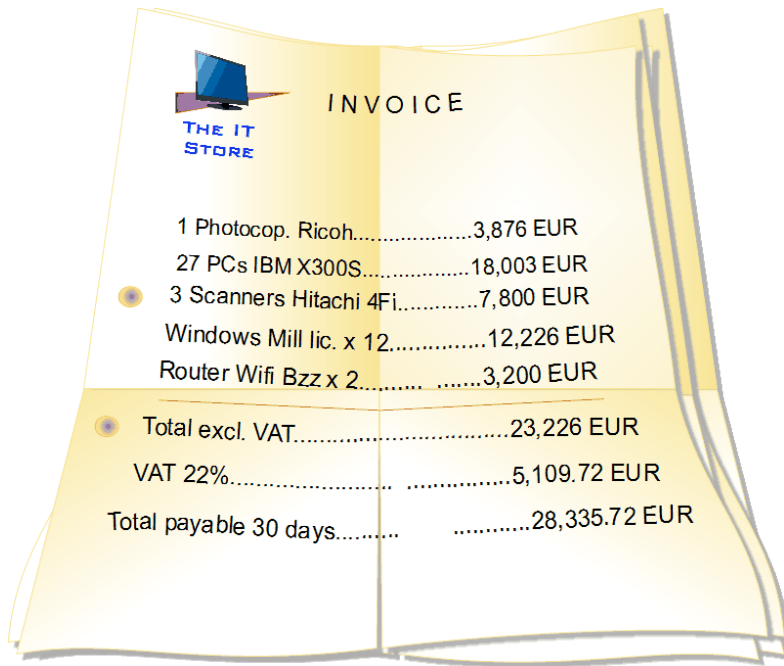
# Tale of a startup



Send me the invoices



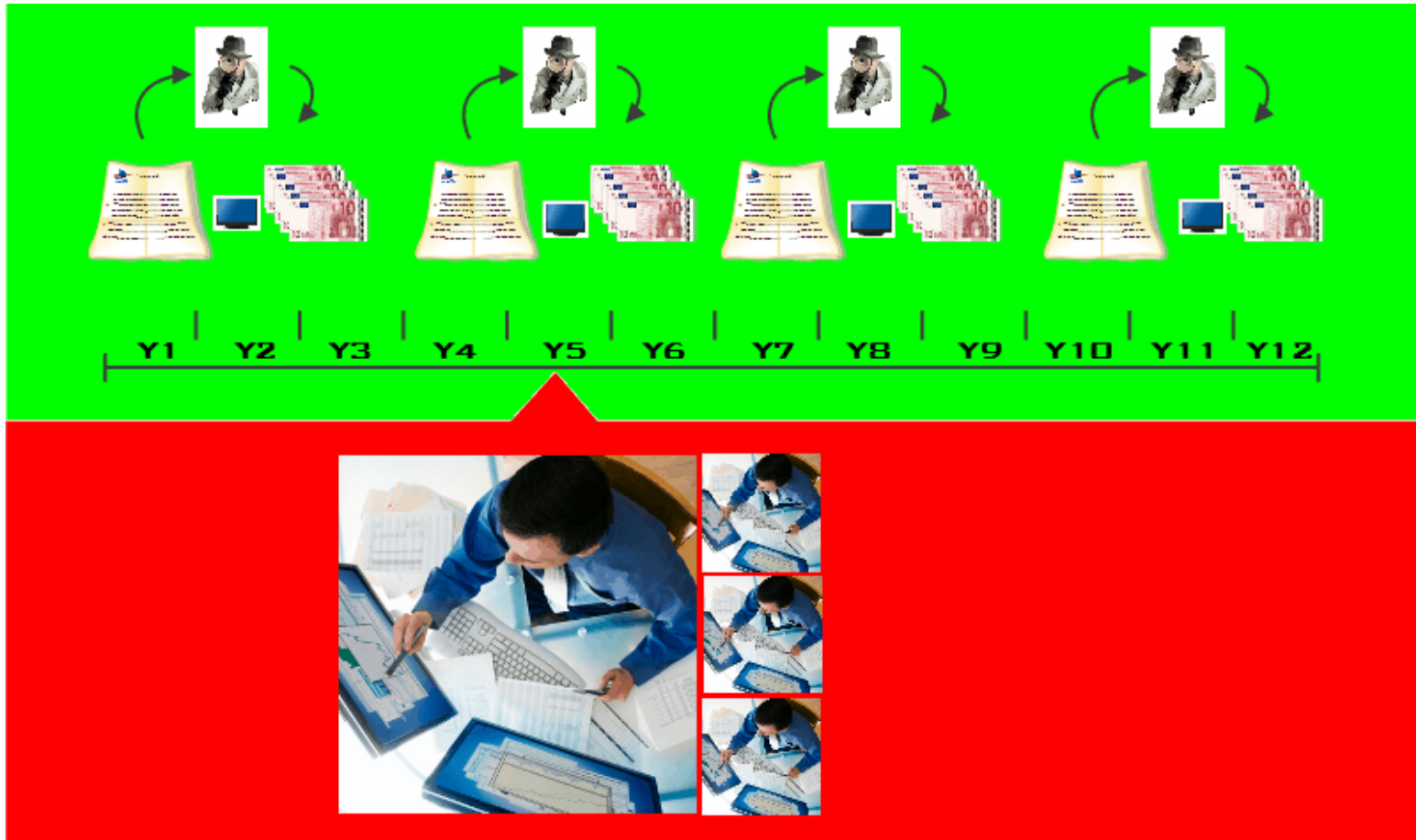
# ■ Intrinsic proof?





## VAT process inherited from paper

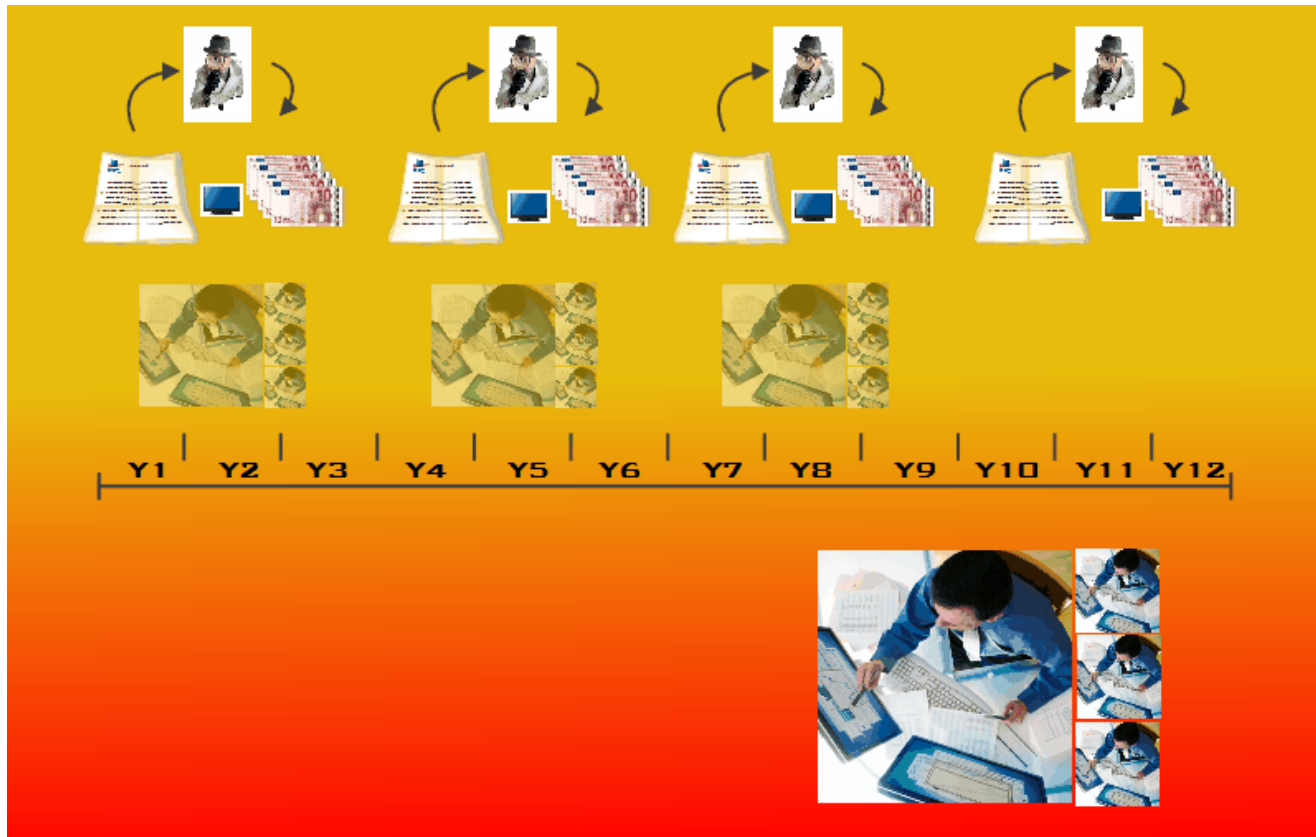
Sufficient transaction evidence based on trust and standalone invoices  
(ongoing process based on VAT law: never full transaction evidence)



Full audit of any part of your administration and processes  
(snapshot based on accounting law: seeks full evidence of supplies)

## Business controls option

No intrinsic trustworthiness of invoice:  
proof is always in combined transaction record.



Business feasibility depends on (1) culture, relationship with tax, (2) administrative excellence and (3) business models

## ■ Tax (enforcement) culture

VAT relies heavily on accounting law  
Form culturally and judiciarily unacceptable  
Process-oriented view of control  
If it's not prohibited it's allowed



VAT and accounting law quite separate  
Form culturally and judiciarily viewed as important (business and government)  
Controls based on authorization  
If it's not allowed it's prohibited

## ■ Administrative excellence

- Retention of sufficient combination of documents and system records of relevance
  - Contract/pre-contract
  - Order/acknowledgement
  - Delivery/time-sheets
  - Invoice, credit notes
  - Payment
  - Matching logic
  - Logs
  - Approvals
  - Mapping tables
- Serious archiving/record association across extended enterprise
- Document processes and controls
  - Separations of duties
- Role for third party audit reports
- Control of all taxes and related records (no spillover worries)

# ■ Hard to reconcile with certainty

## Technology

- In-house
- Data centre hosting
- Application management outsourcing
- Systems management outsourcing
- Communications outsourcing
- ASP/Process outsourcing
- Pure Cloud
- Data formats
- Level of automation
- Number of ERPs/production chains
- Level of system integration
- Audit trail production/security
- Existing security protocols. networks

## Processes

- Straight or self-billing
- Intercompany or external
- # of suppliers/customers
- Size of suppliers/customers
- Churn
- Relationship power
- Shared service centres
- Purchasing consolidation
- Sectoral normative frameworks
- PO versus non-PO invoices
- Organization (e.g. turnover)
- Manual processes
- Internal controls
- Security certification

## Auditability

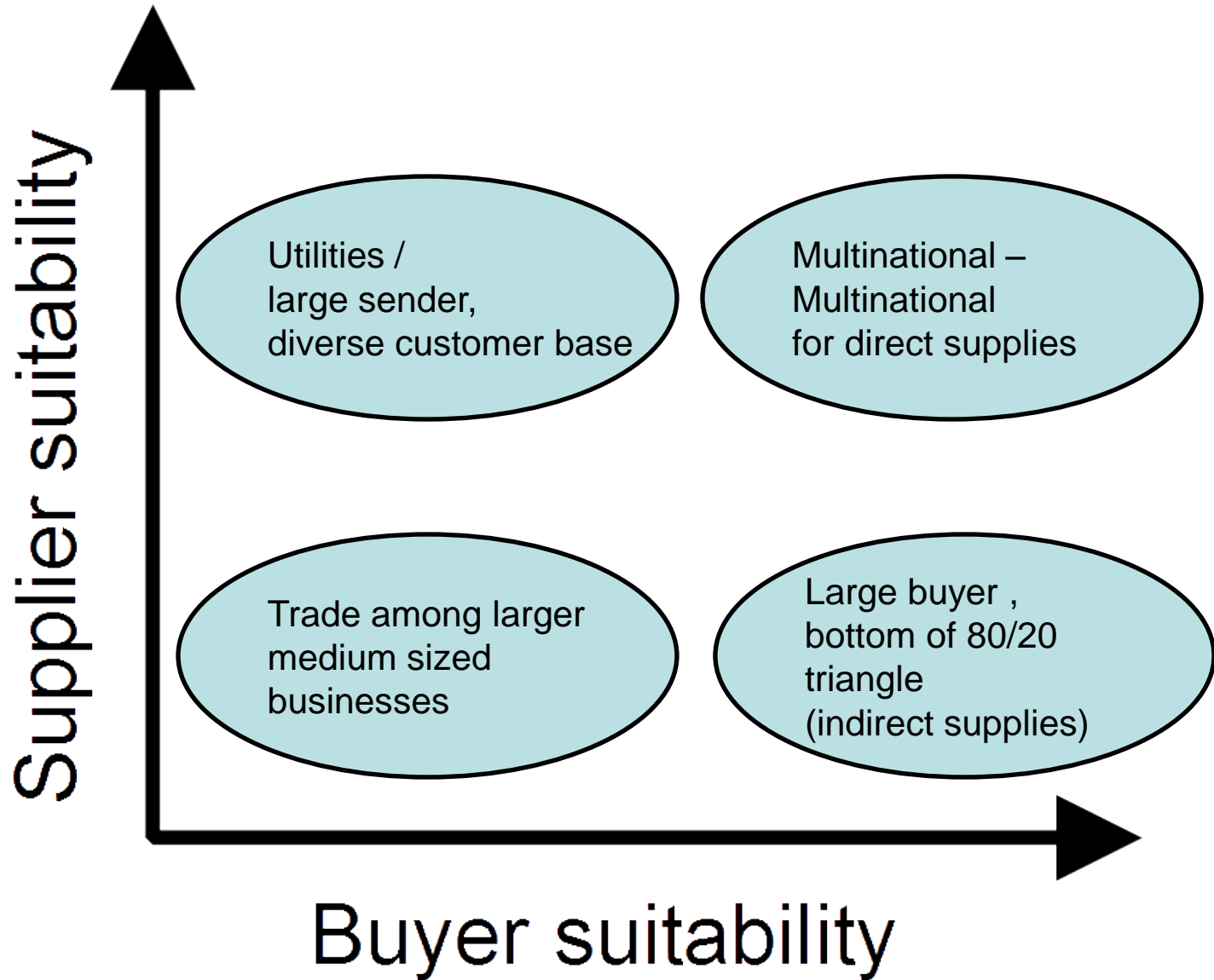
## Legal structure

- Subsidiary structure
- VAT architecture
- #SLAs
- Formality of sales/purchase agreements
- Intercompany agreements
- Rate of change
- Contract management

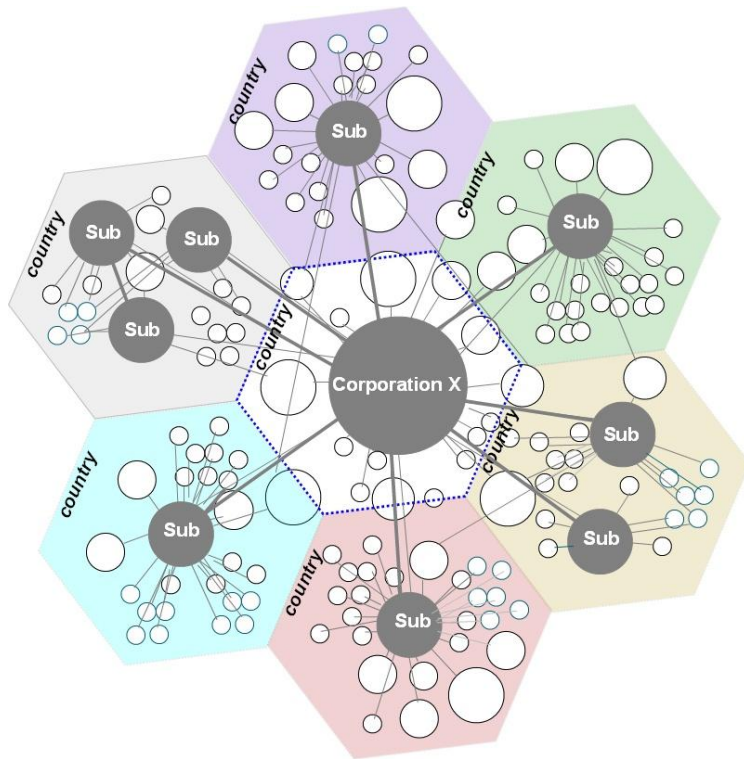
## Geography

- Archive location
- Spread of controls
- Variety of tax cultures/requirements
- Languages
- Country of processing
- Country of audit trail storage
- Countries of establishment service providers
- Applicable laws of service contracts
- Local normative frameworks (business)

## Business models



## ■ A typical multinational corporation's transaction environment



- Only 5-25% cross-border, rest multi-domestic
- Heterogeneous and evolving trading partner environment and interfaces
- Continuous change in processes, systems, people, legal structures
- Need for a single long-term auditability strategy – for the corporation, its subsidiaries and trading partners
- “Printing money in 27 Member States”
- Access/storage of combined records

# ■ Adjacent legal areas





**Ask an informed business person  
(or tax consultant):**



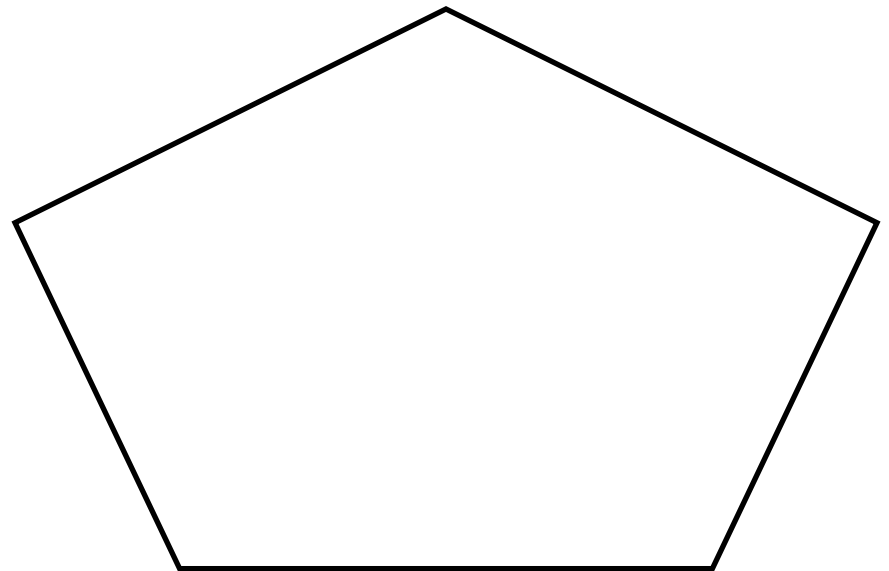
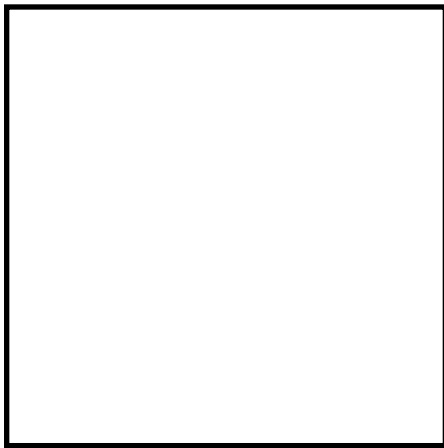
**Describe good business measures  
for e-invoicing**

**Ask tax administrations:**

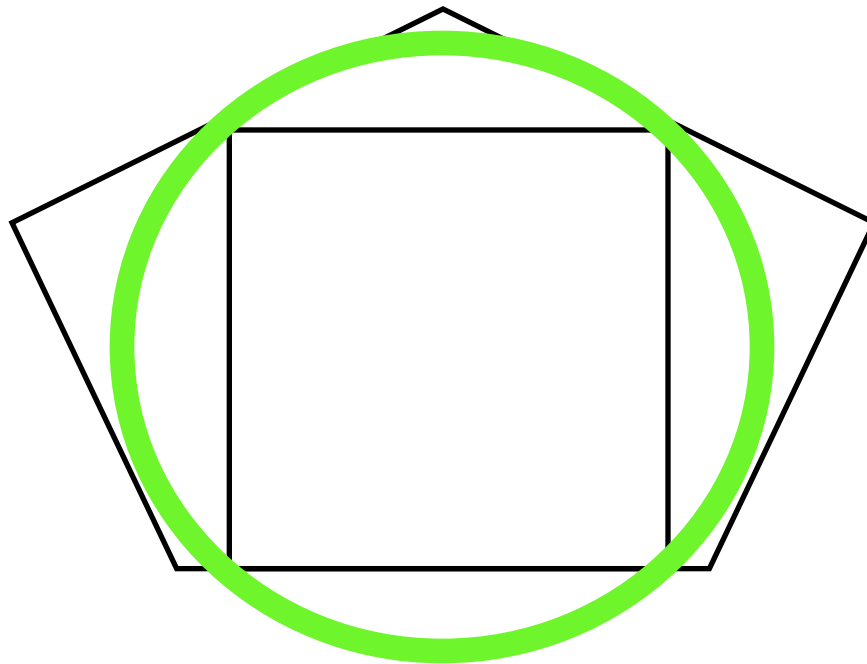


**Describe good business measures  
for e-invoicing**

- The challenge to businesses is knowing what's truly in the red zones so they can be sure to implement something at an acceptable risk level.



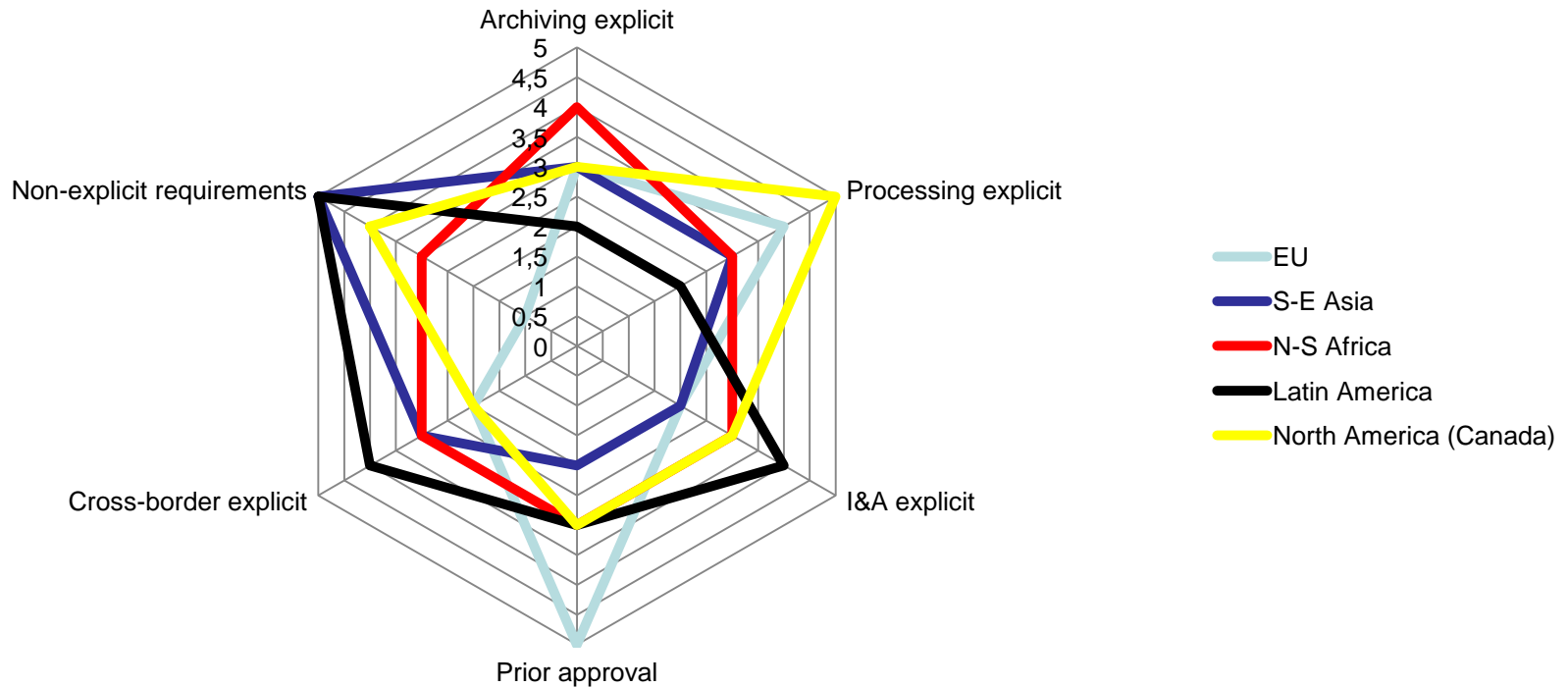
- Evidence management/auditability not yet very intuitive for businesses
- Years of work have gone into defining good joint best practices

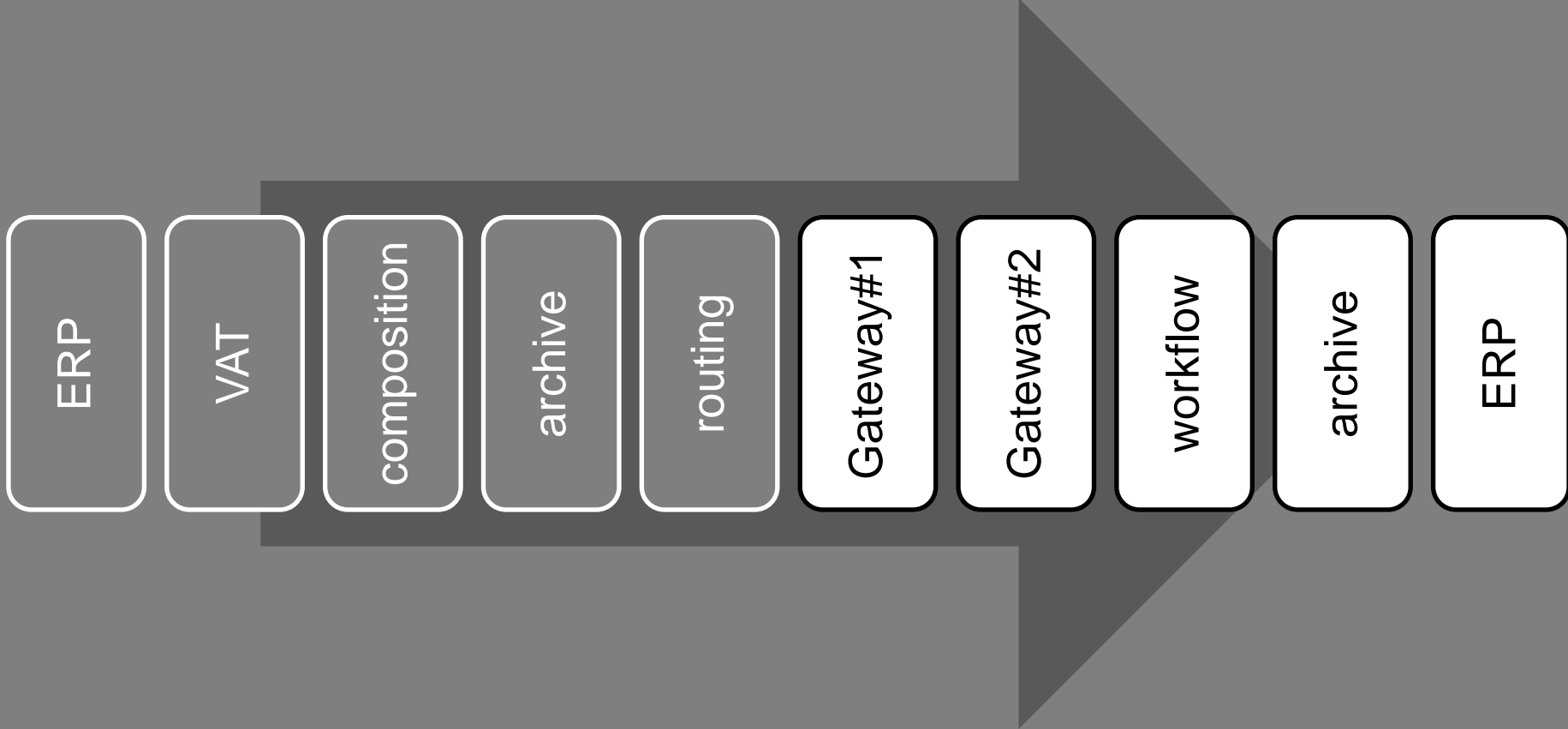


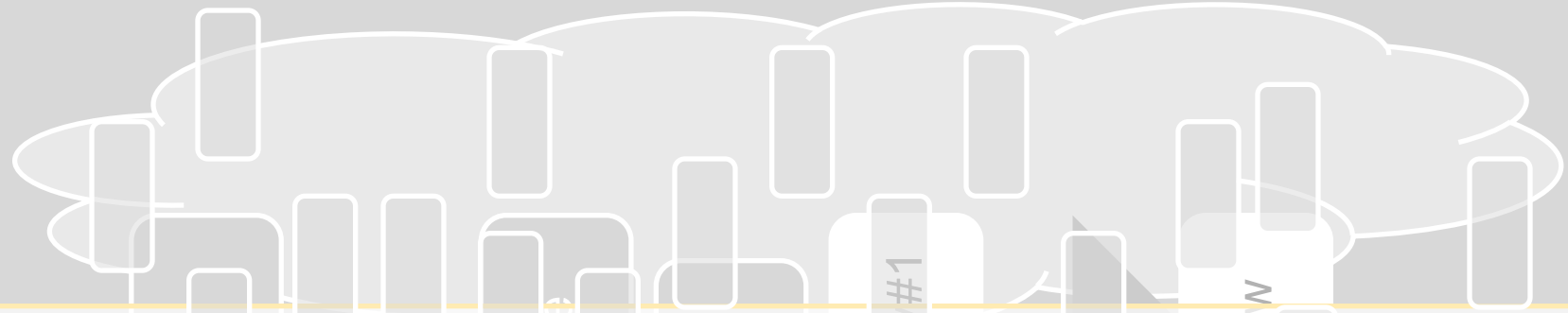
- Will the law follow?

# Certainty has a cost and a value

1=very expensive for business – 5=reasonably inexpensive







The Cloud – innumerable contracts/legal persons, high turnover/ad hoc relationships, loosely coupled components

ASP/process management outsourcing – many contracts/legal persons, significant turnover

Application management outsourcing – several contracts/legal persons, low degree of change

Simple hosting – few contracts/legal persons, usually stable

- Signature phobia



This man was stung by a PKI as a toddler.

- Bypass or facelift?

