TAX EXECUTIVES INSTITUTE

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Submitted via email to: einvoicingconsultation@hmrc.gov.uk
HM Revenue & Customs
Department for Business & Trade

Re: Public consultation on real-time digital reporting and electronic invoicing

Dear Madam and Sir:

On behalf of Tax Executives Institute ("TEI"), we want to thank HM Revenue & Customs (HMRC) and the Department for Business & Trade (DBT) for the opportunity to share our perspectives on the possible introduction of e-invoicing in the United Kingdom ("UK"). Members of TEI work for multinational enterprises that regularly engage in international sales of goods and services and are keenly interested in the implementation of e-invoicing globally, including in the UK. (More information about TEI and its activities is provided in *Appendix 1.*)

We have been active participants in various e-invoicing and digital reporting consultations throughout Europe and elsewhere, including the European Commission's VAT in the Digital Age ("ViDA") initiative and the Irish 2024 Public Consultation on Real-time Digital Reporting and Electronic Invoicing. We fully support the concept of digitalizing and automating tax processes, including e-invoicing, and encourage standardization and harmonization of e-invoicing across Europe. For any mandatory regimes, however, impacted businesses must have a reasonable time frame for implementation—at least two years from when the requirements have clearly been defined and made public.

TEI members recognize and appreciate HMRC and DBT efforts to seek and consider input from businesses and concerned parties during this consultation period. In our experience, a close and ongoing collaboration with businesses from thought to implementation is essential for guaranteeing a smooth and successful introduction of new initiatives, such as e-invoicing, that alter long standing business practices. Similarly critical is coordination, both from a timing and content perspective, with other global developments in the area, such as the ViDA initiative, keeping in mind that businesses have limited IT resources and, absent coordination, would have to decide which e-invoicing initiatives to prioritize.

Rather than replying to your questions one by one, we address them in a consolidated manner under each subject chapter. TEI members welcome the opportunity to engage in a more detailed dialogue with HMRC and DBT on any points in this letter and would likewise be delighted to provide our continued support throughout the entire implementation cycle.

Tax reporting

We understand that the consultation is seeking to better understand the costs business incur when processing invoices "manually." It is important to note that e-invoicing also comes with costs, not only for implementation, but also for ongoing running and maintenance. E-invoicing costs are particularly impactful for small and medium sized enterprises (SMEs).

In our experience, businesses lack the internal resources needed to effectively manage the various formats and data fields governments around the world mandate for e-invoicing. Businesses therefore routinely resort to third party service providers to "translate" the data from their internal ERP systems into the required fields and formats of the various e-invoicing mandates. Some of these service providers charge a per transaction fee, which is especially costly for businesses with high volume and low value transactions. We urge HMRC and the DBT to provide free e-invoicing software to SMEs to reduce the administrative and financial burden associated with the implementation and ongoing running costs of e-invoicing.

In our experience, large businesses incur higher costs for processing accounts payable (AP) invoices compared to accounts receivable (AR) invoices. This is because AR invoices are more automated. Systems typically generate and send AR invoices automatically to customers based on triggers like dispatch confirmation or confirmation of delivery of goods.

Because TEI's membership represents businesses operating in diverse countries and regions and of varying sizes, providing representative insights into the number of invoices processed and associated costs for all members is challenging. With this limitation in mind, however, we provide the following insights on AP invoice processing costs from one of our members:

Industry	Annual revenue	Number of employees	UK Monthly AP invoices processed	Average processing time	Average cost per invoice
Industrial/ Transport/ Technology	USD 15+ billion	+92.000	16,000 - 17,000	5 - 7 days from receipt	USD 4 - 5[1]

[1] Please note this is the average costs for a company with outsourced AP operations in a low cost jurisdiction. UK businesses with AP operations in the UK would likely incur significantly higher costs.

For comparison, we provide insights in the below table from two TEI members in different industries on the implementation and operational costs of complying with mandatory e-invoicing. In addition to the third party costs, there are also internal costs involved in monitoring the issuance and receipt of the e-invoices and to resolve any potential system or data issues preventing the invoices from being processed correctly.

Industry	**Annual revenue**	**Number of employees**	**Implementation costs (one country)**	**Third-party cost (per invoice)[2]**
Industrial/ Transport/ Technology	USD 15+ billion	+92.000	Approx. EUR 40,000	EUR 0.1060
Consumer goods	EURO 10 billion	=26,000	Approx. EUR 45,000	EUR 0.04 - 0.40[3]

Policy objectives

Based on the e-invoicing experiences of TEI members in other countries, it is critical for HMRC and DBT to establish a primary policy objective that guides the design of the e-invoicing system. We believe this objective should focus on enhancing efficiency for both UK tax administrators and compliant businesses through modern technology. We urge HMRC and DBT to avoid incorporating excessive datapoints in an attempt to address multiple objectives, such as fraud prevention. Identifying tax fraud will naturally be a byproduct of any well-designed e-invoicing system. Therefore, an e-invoicing system aimed at improving implementation and ongoing compliance efficiency for tax administrators and compliant businesses will safeguard VAT revenues while ensuring the compliance process remains simple and efficient for businesses.

We also urge HMRC and DBT to holistically review the various data reporting regimes with which businesses operating within the UK must comply and make changes to ensure the data reported on and made available to HMRC through e-invoicing is only required to be reported once. TEI members have observed a global increase in reporting requirements for businesses, with an unfortunate trend of businesses having to report the same data multiple times across different regimes, such as DAC7, CESOP, SAF-T and e-invoicing.

We also encourage HMRC and DBT to consider the data-security challenges businesses face when transferring personal and confidential information outside their controlled IT environments. Both

[2] Based on an estimated monthly volume of 60,000, including both AP and AR invoices but excluding internal running costs. A decline in the volume of invoices would cause an increase in the cost per invoice.

[3] Additionally, this company incurs fixed costs of between EUR 4,000 - 10,000 per month per country to its outsourced service provider for making the e-invoicing solution available.

internal and external stakeholders closely scrutinize how businesses manage customer data, especially in business-to-consumer (B2C) transactions. To help businesses explain data sharing requirements to their IT security and legal teams, as well as to their customers, it would be beneficial for HMRC and DBT to publish information on how the government manages this data, the security measures in place for the government's data management systems, and the legal requirements for businesses to share data with HMRC.

Standardization

TEI members have experience using a number of different e-invoicing standards and formats, including:

- XML (used in Hungary)
- FatturaPA (used in Italy)
- FA_VAT (used in Poland)
- UBL 2.1 / SR EN 16931 (used in Romania)
- Facturae, EN 16931 (used in Spain); and
- PEPPOL (used in a number of countries such as Australia, Japan and Singapore).

The different interface formats require companies to provide additional details beyond basic invoice fields, and these details often vary by country. In our experience, e-invoicing systems with fewer mandatory data points are more efficient for both tax administrators and businesses. We therefore urge HMRC and DBT to adopt a "less is more" approach, mandating only the data points necessary to meet primary policy objectives, while allowing helpful but non-essential data points to be optional.

When determining the data points for the e-invoicing standard, we strongly encourage HMRC and DBT to consider where the same or similar data might already be available from other sources, such as the reporting rules for digital platforms effective from 1 January 2024. Eliminating or minimizing redundant reporting across different regimes will enhance the efficiency and effectiveness of the e-invoicing system, both in terms of implementation and ongoing operations. The e-invoicing standard should also be flexible, including free text fields that business partners can use to share relevant data, such as purchase order numbers.

Regardless of the standard adopted, the introduction of a single, shared standard throughout the UK is crucial to attracting voluntary usage by businesses. In addition, we encourage HMRC and DBT to adopt an existing standard, rather than creating a new, unfamiliar standard to which businesses and service providers must adapt. Using an existing standard will make adoption and implementation of UK e-invoicing easier and less costly for UK businesses.

Models and approaches

Invoicing is a critical business process that determines when a company can receive payment for its goods or services. Government intervention in established invoicing practices can cause significant financial harm to businesses. Therefore, any intervention in this key process should be minimal. For this reason, any e-invoicing standard introduced in the UK should be voluntary, not mandatory, for businesses.

Countries with voluntary regimes, such as Finland, have achieved a high adoption rate without imposing mandates, except for business-to-government (B2G) transactions.[4] HMRC and the DBT may benefit from outreach to their Finnish peers to discuss their success with voluntary e-invoicing. To encourage businesses to voluntarily adopt e-invoicing, we recommend that HMRC and DBT consider business-friendly measures, such as lighter audits and faster VAT refund processing.

TEI members have observed both advantages and disadvantages in decentralised and centralised e-invoicing models. When choosing a model, it is essential for HMRC to consider its impact on business interactions, not only between UK businesses, but also between UK businesses and their international customers and vendors. Any change affecting how suppliers interact with customers or receive payments should be carefully evaluated due to its significant implications.

With a centralised model, it is crucial to plan for contingencies in case the government portal becomes unavailable for any period of time. A system outage that prevents timely invoice issuance could be very harmful to businesses.

TEI members acknowledge that small and micro taxpayers may benefit from a future move to pre-filled VAT returns. Medium to large taxpayers, however, would likely not. TEI members are particularly concerned about the administrative burden of reconciling pre-filled return data with internal data, especially when e-invoices do not include additional transactions and adjustments that also need to be reported. For example, discrepancies could arise when a business must account for deemed VAT on goods donations. Such donations are typically recorded manually rather than with an invoice, and would result in mismatches between the e-invoices issued and the VAT return filed.

Should HMRC and DBT decide to move forward with a UK e-invoicing regime, it will be important to also consider practical aspects, such as summary invoicing; requirements for credit notes to include

[4] In Finland, large companies (annual turnover more than EUR 50 million or more than 250 employees) make extensive use of e-invoicing. According to a Statistics Finland estimate for 2021, about 83% of companies with more than ten employees voluntarily send e-invoices. *See* E-invoice metrics 2020-2023, Ministry of Economic Affairs and Employment of Finland, June 2024, at page 3 of 12 (available at: https://cdn.valtiokonttori.fi/wordpress/sites/10/2024/09/EN_Verkkolaskumittaristo_Yrityksen_Digitalous_2020-2023_Kaannettavaksi_en-2.pdf).

references to the original invoice; how to deal with self-billing scenarios as well as corner/less envisaged cases, such as travel and expense receipts; tax invoices issued in a retail setting; and any potential changes required to be made to the VAT legislation to ensure alignment between e-invoices and the concept of supply for VAT purposes. TEI members have experienced these issues when implementing e-invoicing in other countries and would welcome further discussion with HMRC.

Support and Engagement with business

If HMRC and DBT introduce a mandatory e-invoicing regime, impacted businesses will need a reasonable implementation period before any mandate goes into effect. In our experience, implementing a mandatory e-invoicing system significantly impacts both businesses and tax administrations. Within most companies, IT departments are already stretched thin, struggling to keep up with frequently changing VAT compliance requirements across various countries. The IT design and build required for mandatory e-invoicing are complex and cannot begin until all details, especially IT specifications, are finalized and communicated to businesses.

Appendix 2 illustrates the challenges businesses face when implementing mandatory e-invoicing regimes by listing key action steps required for implementation. These steps are time-consuming, which is why other countries have allowed multiple years for businesses to comply with their e-invoicing mandates.

Considering these challenges, we respectfully request HMRC and DBT to adopt an implementation date that is no earlier than two full calendar years after the final details of the legislation are published. Experience in practice shows that a reasonable implementation period of at least two years is important, not only for businesses, but also for tax administrations, which require time to, for example, develop and test the new e-invoicing system, train staff, educate taxpayers, ensure system security and data protection, and develop practices and procedures for monitoring compliance with regulations and standards.

Tax authorities generally draft rules and procedures to address the concerns and issues that will be faced by the majority of taxpayers when implementing new legislation. However, modern enterprise resource planning systems are complex and tailored to meet the specific needs of sophisticated businesses. The proposed implementation period of at least two years would provide both taxpayers and the government with the opportunity to address any issues presented by more complex processes and non-standard business flows.

It is also important that, once an effective date is communicated, this date is adhered to and not changed. Businesses plan resource allocations well ahead of time, often years in advance. Once IT resources are committed to a particular project, businesses cannot quickly reassign them to other projects. Hence, when mandatory e-invoicing effective dates are delayed, businesses incur significant opportunity costs associated with prioritizing e-invoicing over other key business projects.

We have provided below a summary of select recommendations for a successful implementation of e-invoicing in the UK. It reflects TEI members' experiences implementing e-invoicing in other countries:

- Any e-invoicing mandate, including all necessary technical requirements that companies must fulfill to implement e-invoicing, should be published with an effective date no sooner than two years from the date of publication. We recommend a phased-approach that makes B2B e-invoicing mandatory in phases, depending on taxpayer size, over a period of at least 12 months (beginning with large taxpayers two years from the date the final mandate is published).

- A test environment should be provided, including technical support, to businesses wishing to test their systems, ideally for a couple of years prior to implementation.

- A voluntary pilot program should be offered, including technical support, to businesses (large and small VAT registered companies) wishing to test their systems in a live environment. The learnings from this pilot program should be shared with the wider business community.

- Free e-invoicing software should be offered to small and medium sized businesses to shield them from the administrative and financial burden associated with the implementation and ongoing running costs of e-invoicing which are significant.

- The e-invoicing platform should be user-friendly, allow businesses to download their data in different formats, and offer different/flexible data fields to enable easier internal reconciliations. It would also be helpful if the e-invoicing platform could store the invoices for the requisite period of time and in the correct format to meet tax and accounting record keeping requirements.

- Post implementation, HMRC should organize and maintain technical support services to businesses, such as web portals, to small and medium sized businesses free of charge.

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Thank you for considering our comments, including the request for a meaningful implementation period of at least two years if an e-invoicing mandate is pursued. Stakeholder involvement, from start to finish, will ensure a successful transition and implementation for all parties involved. Our comments were prepared by TEI's EMEA Indirect Tax & Customs Committee, chaired by Anna Ogenblad and with legal staff liaison Patrick Evans. Please contact Ms. Ogenblad at annaogenblad@gmail.com or Mr. Evans at pevans@tei.org if you would like to discuss our comments.

Yours faithfully,

Anna Ogenblad
Chair, EMEA Indirect Tax & Customs Committee

Appendix 1: About TEI

TEI is a nonprofit organization founded in the United States in 1944 to serve the needs of business tax professionals.[1] Today, the organization has 55 chapters spread across Europe, North and South America, and Asia, and our nearly 6,500 individual members represent over 2,800 of the leading companies in the world. A significant number of TEI's members are resident in Europe, including in the United Kingdom, and many of our non-EU members' companies also conduct business in Europe and the United Kingdom

TEI members are responsible for the tax affairs of their employers and must contend daily with provisions of the tax law relating to the operation of business enterprises throughout Europe and the United Kingdom. Most of our members work for global businesses that have implemented e-invoicing in multiple jurisdictions, meaning we are well placed to provide input on benefits, challenges and best practices in this area.

TEI is dedicated to the development of sound tax policy, compliance with and uniform enforcement of tax laws, and minimization of administration and compliance costs to the mutual benefit of government and taxpayers. We are committed to fostering a tax system that works—one that is administrable and with which taxpayers can comply in a cost-efficient manner. We believe the diversity, professional training, and global viewpoints of our members enable TEI to offer balanced and practical comments on the questions raised.

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1. TEI is organized under the Not-For-Profit Corporation Law of the State of New York, U.S.A. It is exempt from U.S. Federal Income Tax under section 501(c)(6) of the U.S. Internal Revenue Code of 1986, as amended. TEI is in the EU Transparency Register (No 52413445902-12).

Appendix 2: Action steps for businesses implementing e-invoicing

Implementing e-invoicing is transformational and requires fundamental changes within organizations. Although the tax function often leads the implementation, it involves many other business functions, including finance, operations, procurement, and importantly, IT. Because the interdisciplinary impact is significant, implementation takes time and is quite costly for businesses. Additionally, implementation cannot begin until final details of the legislation are published.

We have summarized below the various actions businesses must take to implement e-invoicing. Based on our experience with this and other mandates, a period no shorter than two full calendar years is required for implementation.

- Research and understand the new law, methodological norms, and technical requirements: Businesses need time to digest the legislative framework and engage consultants to assist with the implementation process. Next to understanding the British legal environment, businesses will need to consider the legislation in the UK and any upcoming developments as well. Throughout the implementation processes, businesses may be confronted with specific business and systems circumstances which are not well defined in the legislation.
- Determine the scope of the e-invoicing implementation: identify the departments, suppliers, customers, and types of transactions that will be covered by e-invoicing.
- Analyze the current invoicing process: document the current invoicing process, including manual and electronic steps.
    - Businesses may have already implemented e-invoicing concepts, which may be continued or may not be applicable any longer.
    - Depending on their internal organization, many businesses, particularly those that have grown through mergers and acquisitions, have business units that use different ERP systems. This further complicates the process.
- Assess organizational readiness: determine the technical and operational capabilities of their organization to implement e-invoicing.
- Choose an e-invoicing solution: select an e-invoicing solution that meets the needs of their organization and complies with the local legal requirements.
- Update the accounting program, if necessary, to fit with the chosen e-invoicing solution.
- Choose an e-invoicing service provider: in many instances, e-invoicing requires involvement of one or more third party e-invoicing service providers.

- Vendor selection requires identifying and reviewing capabilities of potential service providers, understanding their approach, and evaluating the support services and tools they can offer.
- E-invoicing service providers must be evaluated for the quality of their services, the strength of their tools and reports, their agility in an ever-changing landscape, the security of data, the cost picture, and many other parameters.
- The majority of companies will go through a bidding process which is very strict in terms of content and deadlines and may take 3 to 6 months.

- Submit and receive approval of corporate budget request: implementation of e-invoicing, and digitalization and automation of processes in general, is extraordinarily expensive. Businesses are required to prepare an in-depth analysis of proposed implementation costs, both the set-up cost and ongoing running and maintenance cost, and request corporate funding to proceed with the project. The impact of technology implementation costs on a business's annual budgets is significant and will be considered in the organization's overall financial outlook.
- Develop a project plan that outlines the implementation steps, timelines, roles, and responsibilities.
- Assign a project team: Assign a team to manage e-invoicing implementation, including representatives from IT, finance, and procurement, accounts payable, accounts receivable.
- Create an e-invoicing policy and communicate it to all stakeholders.
- Conduct a pilot test with a small group of suppliers or customers to test the e-invoicing system: it is highly recommended that the implementation of a mandatory e-invoicing concept is preceded by a test period or a period where e-invoicing is optional under the planned framework. In this test period, beyond the technical aspects, key business processes should be tested.
- Evaluate the pilot test results and make necessary adjustments.
- Configure the e-invoicing solution (for the pilot and for the go live) to meet the needs of their organization. This requires several successive steps.
    - Step 1: Matching and mapping of all business scenarios in scope (+/-2 months)
    - Step 2: Develop and construct the system (+/- 1.5 months): this includes defining data requirements, including mandatory and optional data fields.
    - Step 3: System integration testing (+/- 1 month): a high-level testing in a test environment to ensure the e-invoicing solution functions as expected and meets the legal requirements.
    - Step 4: User acceptance testing and defect resolution (+/-2 months): an in-depth test that simulates what developers expect the process and solution would go through in a

production environment by the key user. This includes a non-negative impact test and stress test where required.

- Step 5: Move to production environment and production cut over planning (+/- 1 month)

- Communicate the implementation plan: communicate the implementation plan to all stakeholders, including suppliers, customers, and internal departments.
- Provide training to employees, suppliers, and customers on how to use the e-invoicing solution.
- Develop templates for e-invoices that meet the legal requirements and include the necessary data fields.
- Define approval workflows: define approval workflows for e-invoices, including who is responsible for approving invoices and the approval process.
- Re-engineer invoice receipt, control and booking process and tools, including integration with ERP and accounting systems.
- Define payment workflows: define payment workflows for e-invoicing, including how payments will be processed and when they will be made.
- Interoperability of formats: businesses may struggle to convert the different e-invoicing formats into a format that is readable and can be processed in their systems.
- Monitor and measure performance: monitor and measure the performance of the e-invoicing solution to identify areas for improvement.
- Issue resolution: address any issues that arise during the implementation and operation of the e-invoicing solution.

Continuously improve the e-invoicing process based on feedback from stakeholders and performance metrics.