IMPACT OF STRUCTURED E-INVOICING ON BUSINESS PROCESSES & METRICS

Abstract

Digitalization is transforming tax regulations around the world, with structured e-invoicing emerging as a leading trend. The European Union has jumped on this bandwagon with the ViDA (Value-added tax in Digital Age) initiative, endorsing structured e-invoicing as the preferred invoicing method over the traditional invoicing methods. Navigating this transition requires a comprehensive redesign of the invoicing processes along with the integration of new technologies. This POV explores the structured e-invoicing trend and how it may change the invoicing landscape in the days to come, primarily from the viewpoint of the Krajowy System e-Faktur (KSeF) - Poland's structured e-invoicing system.

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The concept of structured e-invoicing

The introduction of structured e-invoicing signifies a substantial shift from conventional invoice workflows. Under the current model, tax authorities can only gain visibility into transactions retrospectively, after the involved parties – the seller and customer – have exchanged invoices to document them. The prevalent practice involves issuing invoices in PDF format and transmitting them through emails.

The existing invoice workflow is illustrated as follows:
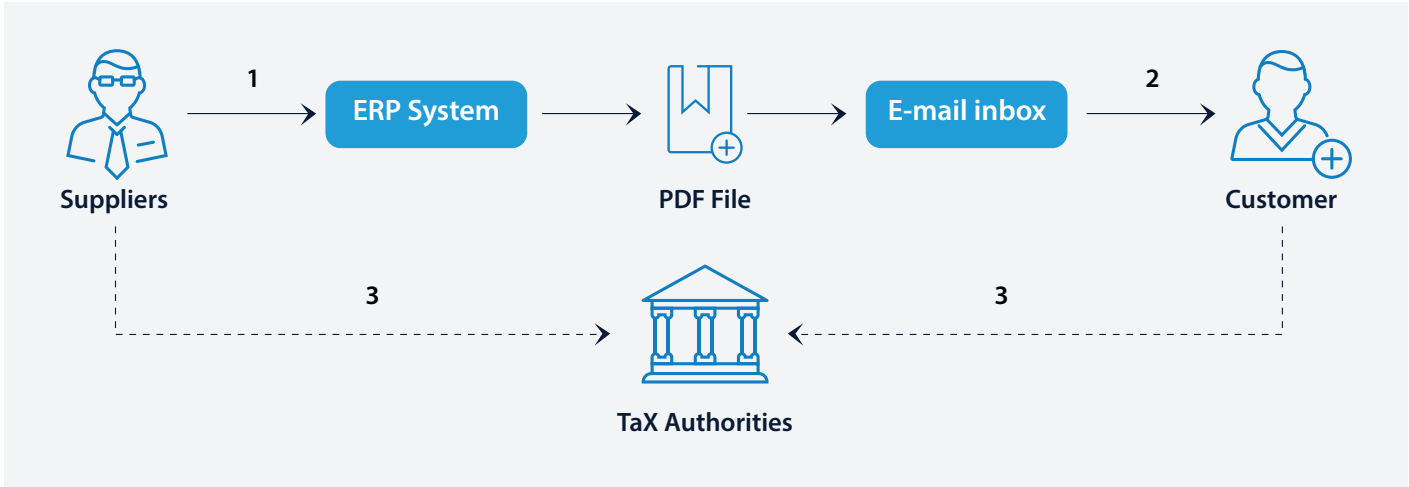
1. A supplier generates an invoice within their Enterprise Resource Planning (ERP) system, such as in PDF format. They then send the invoice to the customer's e-mail inbox.

2. The customer accesses the invoice from their email inbox.

3. Both the supplier and customer include information about the invoice (transaction) in their respective VAT reports.

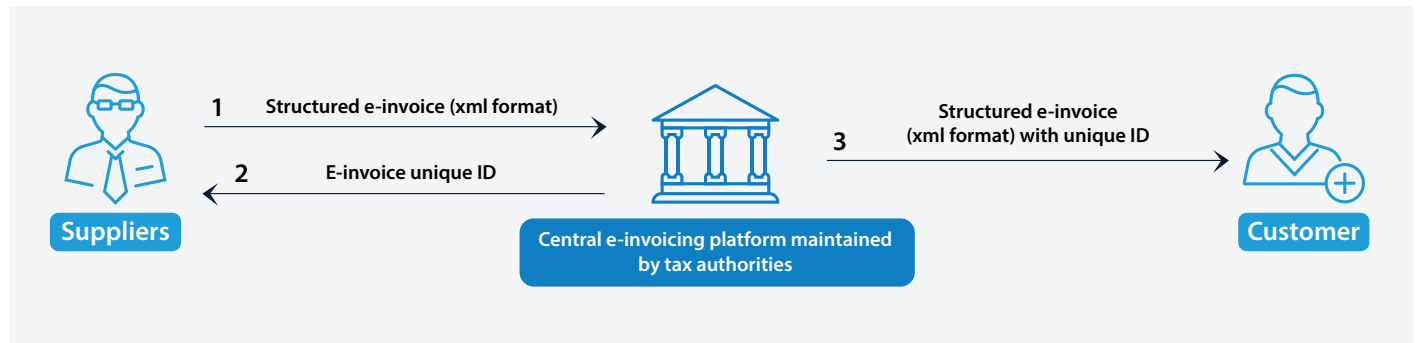Structured e-invoicing introduces a notable change to this workflow. In this model, invoices are first sent to tax authorities for validation and approval before being sent to the buyer. Within the scope of structured e-invoicing, invoices are transmitted in formats such as Extensible Markup Language (XML), JavaScript Object Notation (JSON), or Factur-X (semi-structured) through a centralized or a

registered private platform (PDP) - an approach used as one of the structured e-invoicing options in France. Unlike traditional models, these invoices are typically assigned a unique ID that is separate from the number generated by the supplier's ERP system. Buyers can then directly access and retrieve their structured e-invoice from the platform.

The structured e-invoicing workflow can be outlined as follows:

Suppliers → **1** Structured e-invoice (xml format) → / **2** E-invoice unique ID ←	Central e-invoicing platform maintained by tax authorities	**3** Structured e-invoice (xml format) with unique ID → Customer

1. Structured e-invoices are transmitted in XML format through a central platform.
2. Each structured e-invoice is assigned a unique ID, which is distinct from the internal ID assigned within the supplier's ERP system.
3. Customers receive structured e-invoices by accessing them from the central e-invoicing platform.

The impact of structured e-invoicing on business processes

Structured e-invoicing, driven by changes in VAT regulations, significantly incurs a wide range of transformations within finance. The move to this system is not simply about adopting a new technological solution; it necessitates a comprehensive overhaul of current finance and accounting procedures.

Below are examples of how specific finance & accounting areas may be affected:

1. Accounts Receivable (AR) - Sales Invoice Processing:

• The necessity for real-time reporting of sales invoices with tax authorities is emerging.

• A complex mapping procedure will be required to transform the ERP/ billing system data into the XML format compatible with structured e-invoicing scheme.

• A distinct method for dealing with foreign customers who are not included in the local e-invoicing scheme should be considered.

• Implementation of a method to create corrective invoices when certain business conditions are unmet is crucial (e.g., lack of purchase order number on the invoice).

2. Accounts Payable (AP) - Purchase Invoice Processing:

• The AP process will need to be redesigned to accommodate structured e-invoicing. This includes adjusting for XML-formatted invoices, such as cost approvals, purchase order matching, and VAT coding.

• Foreign suppliers not covered by the e-invoicing system may need a separate workflow.

• The process of rejecting invoices that do not meet business requirements may need to be reviewed and redefined, which may lead to increased document handling and the need for a robust credit note handling process.

• Structured XML will cover the entire domestic flow, decreasing the importance of optical character recognition (OCR) technology. At the same time, the volume of paper documents received may drastically decrease, limiting scope for physical mailrooms, scanning & archiving (governmental servers will archive all documents). Thus, any technology implementation or decisions about pricing models must be made with careful consideration.

• Information exchange in electronic version will significantly reduce language dependency in the invoice posting process, potentially leading to a reduction in the cost per invoice.

• New implementations of self-service e-invoicing platforms such as Ariba, Taulia, Tungsten need to be revaluated, as enforced structured e-invoicing could potentially transform AP processes without the investment in such technology.

• All the above may lead to self-induced AP automation, where human intervention will be limited to exception handling.

- Big technology providers such as SAP, Ariba, OpenText, Oracle, Tungsten have out-of-box integration solutions enabling integration between ERPs and government platforms without the need for third party integrators. However, engagement with external integrators need to be reviewed in conjunction with other functions.

3. Payment Process:

- A potential need to include a unique e-invoice ID (different from the internal ERP one) in payment transfers. This could impact both outbound and inbound payments.
- Additional requirements may emerge when receiving payments and paying for a set of invoices.
- Changes in the definition of invoice issuance and receipt dates might demand contract adjustments related to payment date calculations.

4. Travel & Expense (T&E) Process:

- A comprehensive overhaul of the invoice workflow and approval process is needed to accommodate the structured e-invoicing system.
- T&E invoices might be sourced from two separate channels:

  o Visualization of structured e-invoices issued by vendors during business trips, directly received from staff.

  o Invoices from the central platform.

  A unified reconciliation process ensuring consistency needs to be implemented.

- With an appropriately redesigned process, structured e-invoicing has the potential to enhance the amount of VAT reclaimed associated with T&E. Currently, companies do not engage in this activity because the process is cumbersome and the amount to be retrieved is low.

5. VAT Compliance:

- The structured e-invoicing may require the inclusion of additional data, such as a unique invoice ID, in VAT reports.
- A reconciliation between VAT return data and e-invoicing data will be necessary.

- Moving forward, it appears likely that tax authorities may need to take on the responsibility of preparing pre-filled VAT returns, with the taxpayers only required to make necessary modifications and approvals.

6. Intercompany reconciliation:

- Structured e-invoicing is also applicable to intercompany reconciliation, which is usually highly automated.
- All the intercompany invoices will have to be reported in the same manner as third-party invoices.

7. Impact on technology:

- An assessment of current tools supporting impacted processes, such as OCR, Ariba, Vendor Invoice Management (VIM) is necessary to ensure their effectiveness in a structured e-invoicing environment.
- The incorporation of e-invoicing technology solution needs to be integrated with existing systems such as ERP, billing system, AP tools, and others.

Pillars of structured e-invoicing implementation

The successful implementation of structured e-invoicing depends on the robustness of its three main pillars. The stability and efficient functioning of these pillars can streamline the process, making it effective.

Project Management

Core E-invoicing Technology Provider → System Integrator → Tax & Process Consulting
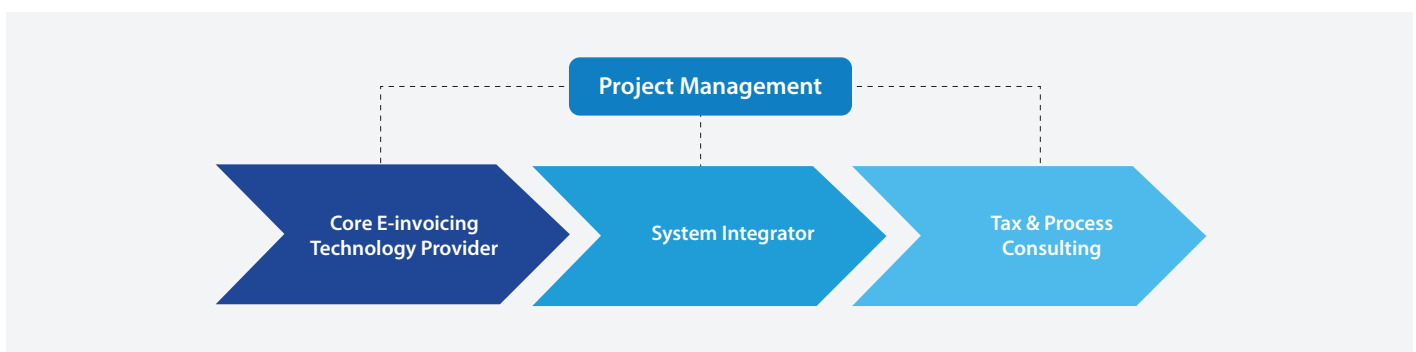
1. Core e-invoicing technology provider selection: The first pillar of structured e-invoicing implementation is the selection of a core e-invoicing technology provider. They provide the essential infrastructure required for the initiation and sustenance of structured e-invoicing.

2. System integrator engagement: The second pillar is the involvement of a capable system integrator. A system integrator plays a critical role in connecting the core technology provider's solutions with your company's existing platforms, such as ERP systems, billing systems, Ariba, VIM.

3. Tax and process consulting: The third pillar is focused on identifying and redefining the processes impacted by the shift to structured e-invoicing. This involves understanding the processes influenced by this innovative approach, redesigning affected procedures, and aligning data with the structured e-invoicing format. A dedicated tax and process consulting roles ensures that the implementation of e-invoicing is compliant with relevant tax regulations and that the processes affected by the transition are adequately managed.

The role of project management:
Given the complexity of the project, which encompasses multiple external stakeholders including the core e-invoicing provider, tax and process consultants, system integrators, and several internal departments such as tax, AP, AR it is essential to have a central coordinating figure. This is where the role of the project manager comes into play. The project manager serves as the unifying entity, holding all the threads together, ensuring a smooth transition and seamless interaction between all involved parties, driving the successful execution of the project.

The roadmap of global expansion

Even as structured e-invoicing gains widespread adoption globally, there are commonalities across these systems, despite the absence of a standardized framework, including within the European Union (EU) itself. These commonalities include centralized government systems for invoice exchange, a standardized XML format, and proactive access to all invoice data by tax authorities. This last aspect is particularly noteworthy as it increases the risk of penalties for non-compliance.

Given the lack of harmonization, it is important to highlight the unique regulatory nuances each country presents with respect to structured e-invoicing. These can include specifics such as the existence of a unique invoice number, the obligation to mention it on payments, and even the use of a QR code on structured e-invoice visualizations, among others.

Structured e-invoicing has primarily been applied to domestic invoices, which suggests a potential for parallel systems to co-exist for some time. In addition, some countries have extended their reporting to include certain international transactions. France is an example of this, as it has rolled out e-reporting for transactional data, including:

- Cross-border B2B transactions (both sales and purchases)
- B2C transactions taxable in France
- Payment data for services

This comprehensive approach, covering both domestic and international transactions, highlights the broad implications and growing complexity of transaction reporting to tax authorities.

In the age of progressive digitization, the implementation of structured e-invoicing is expected to increase, particularly if it proves effective in generating significant tax revenues. Italy pioneered this shift by being the first to implement structured e-invoicing, known as Sistema di Interscambio (SDI). This system is gaining traction and influencing the EU rapidly. A line-up of EU nations, including, among others, Poland, France, Romania, Spain, Belgium, Germany, Croatia, Latvia, and Slovakia, are preparing to launch mandatory e-invoicing in the coming years.

Despite the variations in their implementation schedules, structured e-invoicing will significantly influence financial transactions within the EU. Therefore, businesses must ensure they are sufficiently prepared for this transition to fully comply with the impending regulations.

Authors

Alicja Bardyszewska
Senior Project Leader, Infosys BPM

Alicja Bardyszewska is a Senior Tax Project Leader at Infosys BPM, with over nine years of professional experience in tax and accounting. She holds expertise in VAT compliance across numerous EU jurisdictions and skillfully blends analytical prowess with deep IT tax understanding. In 2023, Alicja successfully passed the Polish chartered tax advisor exam and is currently fulfilling the required professional practice.

Michał Kuczyński
Tax Practice Head, Infosys BPM

Michał Kuczyński brings over 15 years of experience across various roles in the BPM industry. Currently serving as the Director of BPM capabilities, he leads tax practice along other high-end service lines, including Digital Transformation Services, SSC/GBS advisory, Statutory Accounting, Audit, and Internal Control Services. Michał is a certified tax and legal advisor in Poland.

* For organizations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organizational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping **organizations with intuitive decision**-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organizations that are innovating collaboratively for the future.

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