How Electronic Invoicing Networks Streamline Global Tax Compliance

An AP & P2P white paper

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Today's digital economy makes it easier than ever for businesses to buy and sell across the globe.

As a result, more businesses must support the value-added tax (VAT), goods and services tax (GST), provincial sales tax (PST), withholding taxes, and more.

In most countries where invoices can be sent electronically, businesses must prove the integrity and authenticity of their electronic invoices, across their different processes and partners, over a long period of time, in accordance with tax laws.

No wonder that 62 percent of CFOs at best-in-class organizations identify compliance and risk mitigation among their top priorities, according to The Hackett Group. What's more, audit and compliance preparedness is the most important metric to accounts payable departments – topping critical measures such as error rates, staff productivity, Days Payables Outstanding, invoices paid on time, and invoice processing costs, according to the Institute of Finance and Management (IOFM).

Paper-based invoice processes make it difficult, if not impossible, for businesses to ensure compliance with tax laws and other rules. It is easier to achieve compliance with electronic invoicing: invoice history and data fields are tracked; pre-configured workflows and assignment of duties ensure that employees adhere to approval policies; chain of custody is assured; audit information is readily accessible; there are controls for Sarbanes-Oxley and Payment Card Industry Data Security Standard (PCI/DSS); and there are controls to prevent invoices and other documents from being discarded or destroyed ahead of deadlines set by regulators or auditors. Moreover, many countries are mandating electronic invoicing as part of their tax collection initiatives.

Electronic conversions of paper invoices such as optical character recognition (OCR) are only marginally better than the traditional paper process, and are not a form of electronic invoicing. Many OCR solutions cannot: manage invoice integrity and authenticity, comply with archiving rules, provide end-to-end controls between partners, or ensure that invoices contain all legally required data fields.

And developing in-house invoicing solutions costs too much and takes too long.

It is for these reasons that more businesses are turning to advanced electronic invoicing networks that uniquely address the requirements of global tax compliance. This white paper describes the challenges of complying with global tax regulations, and shows how electronic invoicing networks eliminate these challenges to reduce the compliance risks of international trade and commerce.

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The Problem

Successfully complying with global tax regulations is taking a toll on accounts payable operations.

Nineteen percent of businesses surveyed for IOFM's 2015 AP Automation Study cited compliance, control and security concerns among their top accounts payable challenges. What's more, 11 percent of those surveyed identified compliance and recordkeeping as their department's "greatest pain."

Complying with tax legislation in the context of electronic invoicing, for instance, requires taxpayers to ensure country specific mandatory data fields are included on invoices, in addition to taxpayers needing to guarantee the authenticity and integrity of invoices, electronically archive invoices, and in some instances, report invoices electronically to the relevant tax authority.

Six percent of finance executives cite regulatory compliance as the accounts payable task that they would most like to go away, according to IOFM's AP Department Benchmarks and Analysis. In the eyes of finance executives, tax and audit reporting is the most manual and paper-intensive finance and administration function, trailing only accounts payable processing, IOFM's research found.

Overall, senior finance executives surveyed by IOFM believe that compliance and risk management is the fourth most-important finance and administration function after cash flow analysis, reducing operational costs, and accounts payable and accounts receivable transaction processing.

One reason that compliance ranks so high on the agenda of finance executives is the stiff penalties and potential costs of non-compliance. For instance, a U.S.-based technology company and its U.K.-based subsidiary were fined more than $1.5 million for poor screening that led to transactions related to the sale of equipment and software to Iran, Syria and Sudan. In the U.K. a business risks losing its right to deduct VAT in cases where there is insufficient evidence of purchases. With standard VAT at 20 percent in the U.K., this means that businesses can retroactively lose more than their profit margin as a result of poor tax compliance. Brazil issues fines of up to 75 percent of the tax amount for non-compliance, and can sentence directors to up to two years in detention, plus a fine.

Compounding matters, businesses lose millions of dollars annually paying fraudulent invoices; one of the world's largest banks lost more than $400 million in 2013 to fraudulent invoices in Mexico.

Electronic invoicing reduces the risk of fraud.

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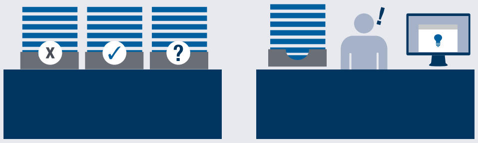


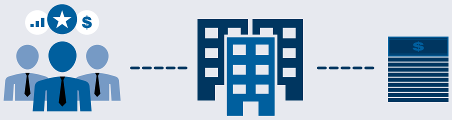
China plans to establish a modern tax collection and administration system by 2020 to, "be commensurate with China's modernized governance system and governance capability, to lower tax compliance cost, enhance tax administrative efficiency, improve the level of tax compliance and satisfaction of taxpayers, ensure the effectiveness of tax functions, and contribute to the sound development of economy and social fairness." The introduction of mandatory electronic invoicing is one of the key measures the country is undertaking to assist with its tax modernization efforts.

In Latin America, Mexico, Brazil and Argentina have long-standing mandates for tax collection as part of electronic invoicing. Additional electronic invoicing mandates are in various stages of roll-out in the region in Costa Rica, Chile, Peru, Colombia, and Bolivia. Even the United States is getting into the act: The U.S. federal government recently issued requirements for all government agencies to receive invoices electronically by 2016. The requirement is part of a larger initiative to improve the efficiency and effectiveness of the government and increase cash flow within supply chains. For now, indirect taxation is not part of the U.S. government's electronic invoicing mandates. This trend is also apparent in the EU as - EU VAT Directive 55 imposes an obligation on all EU public authorities to receive e-invoices by 2018.

Against this backdrop, it is no surprise that automating global tax compliance ranks among the top operational priorities of businesses surveyed by IOFM – ahead of initiatives such as card programs, dynamic discounting, supply chain financing, supplier portals, and migrating to a cloud platform.

Thirty-eight percent of finance executives rank audit and reporting among their top automation priorities, according to IOFM's *2014 Finance Executive Survey.* Thirty-two percent of those surveyed said their business was committing additional capital to the effort. Additionally, 62 percent of CFOs in best-in-class organizations identify compliance and risk mitigation as their top priorities, according to research from Boston-based research and advisory firm Aberdeen Group.

38% of finance executives surveyed rank audit and reporting among their top automation priorities and **32%** percent said their business was committing additional capital to the effort.



The Solution

With the stakes so high, businesses are eager for ways to streamline global tax compliance. This is one reason that electronic invoicing networks are gaining momentum among global businesses.

Most of the electronic invoicing laws established by countries allow outsourcing of tax-related functions to third parties. This enables trading partners to offload much of the technical complexity of complying with global tax regulations (converting data formats, digitally signing and verifying invoices, validating legally required invoice fields, archiving invoices and related documents, etc.) to organizations such as electronic invoicing network providers, who act on behalf of trading partners.

In countries that require an electronic invoice to be sent to the tax administration or its agent prior to being issued, businesses can often only use local service providers that are accredited by the tax administration.

Electronic invoicing networks accelerate global trade and commerce by enabling buyers and suppliers to submit, process, and pay invoices electronically which is often quicker and more efficient than the traditional paper process. Suppliers use their accounting system or a portal on the electronic invoicing network to submit invoice data electronically. The network then validates the presence of mandatory invoice data, enabling suppliers to distribute legally compliant invoices around the world. Invoices are delivered directly to the buyer's accounts payable solution or enterprise resource planning (ERP) system, such as SAP, Oracle eBusiness Suite or JD Edwards. Built-in workflow capabilities through business process management (BPM) software enable buyers to improve their payables processes and measure, manage and quickly adjust to process change requirements. Digitally signed invoices are archived for buyers and suppliers, meeting each compliant country's regulatory requirements.

Forty-six percent of businesses in the United States are evaluating the usage of an electronic invoicing solution, 11 percent are in the deployment phase and set to go live in the next six months, and 25 percent currently have a solution in place, Billentis reports. Worldwide, the volume of electronic invoices is expected to continue growing 20 percent year-over-year, Billentis adds.

But outsourcing tax-related functions to a third party, such as an electronic invoicing network, does not eliminate the accountability of trading partners to tax authorities for their transactions.

That is why it is increasingly important that businesses choose an electronic invoicing network with an eye towards how well the network helps trading partners comply with global tax regulations.

10% of businesses surveyed for IOFM's *2015 Accounts Payable Technology Survey* plan to begin using an electronic invoicing network by 2017.

The Benefits

Advanced electronic invoicing networks uniquely streamline global tax compliance in four ways:

1. **The management of invoice integrity and authenticity**: Many countries require businesses to document their electronic invoicing environment, including the flow of invoices and related documents, process steps, the IT infrastructure, and procedures for guaranteeing invoice integrity and authenticity. Electronic invoicing networks help businesses guarantee legal requirements, authenticity, and the end-to-end data integrity. The fact that electronic invoices can be digitally signed it fundamental way in which invoice integrity and authenticity is guaranteed.

Electronic invoicing networks know who the buyer is, who the supplier is, the transaction history between trading partners, what has been ordered, what has been invoiced (including credit notes), and when a purchase order or invoice has been approved. The technology ensures consistent and controllable business processes and invoice workflows, and creates complete audit trails of all activities performed within the system, including changes to data, and appends digital certificates to transactions in accordance with government mandates. What's more, many electronic invoicing networks use a state-of-the-art IT environment with advanced interfaces, databases and communication tools. Sensitive financial information is safeguarded through configurable roles-based access and interface controls. With an electronic invoicing network, administrators gain real-time visibility into user and supplier activities and have the ability to quickly adjust security controls. Only authorized users can view or manage invoices and related documents, or make changes to data. Moreover, the real-time visibility into invoice processes provided by a network enables buyers to assess and proactively manage compliance risks. Some electronic invoicing network providers also comply and maintain the ISO/IEC 27001 Standard Certificate, a systematic approach to managing sensitive company information.

2. **Archiving and auditor access**: Archiving electronic invoices is a critical requirement for tax compliance, particularly in the European Union. In a paper environment, 22 percent of all documents end up lost or misfiled, according to research from the Association for Image and Information Management (AIIM). Electronic invoices are not immune from mishandling, however applying digital signatures to invoices is a fundamental way in which companies can demonstrate the integrity of their data and prove that the invoice data has not been compromised from the invoice issuance to when it is delivered to the buyer. Electronic invoicing networks provide buyers with options for archiving invoices and related documents based on tax regulations. The document retention controls in a network eliminate the costly risk of deleting or altering an invoice prematurely. As compliance requirements may vary by company, industry or other factors, networks allow businesses to configure their own workflow rules and retention policies. For instance, invoicing networks must comply with restrictions in some countries on where electronic invoices can be archived. Some electronic invoicing networks also provide auditors with direct view-only user access to archived images and data. With minimal training, auditors are able to electronically search documents without burdening an accounts payable department's staff with lots of questions.

3. **End-to-end controls between the trading partners**: More global trade and commerce is conducted electronically than ever before.

22% of all documents end up lost or misfiled

Forrester estimates that more than 40 percent of all U.S. business-to-business (B2B) activity and 20 percent of global B2B activity is conducted through electronic channels. Electronic invoicing networks ensure consistency and control between trading partners, departments, and business processes. With an electronic invoicing network, buyers and sellers establish a single interface to an electronic invoicing network provider to conduct business with multiple trading partners across the globe. The electronic invoicing network manages the controlled transfer of documents such as purchase orders, order confirmations, advanced shipping notices, receipt notices, invoices, invoice acknowledgements, and advanced payment notices between businesses. Electronic invoicing networks automatically track all of the documents involved in a transaction, link the appropriate people to the transaction, and ensure that all steps are completed to the mutual satisfaction of the buyer and the seller, and in accordance with regulations and business requirements. Compared to electronic data interchange networks, electronic invoicing networks provide trading partners with greater visibility into the contents of many of the documents delivered electronically, which helps with regulatory compliance. What's more, an electronic invoicing network enables buyers to establish consistent, controlled and verifiable processes for on-boarding new suppliers. Electronic invoicing networks can alert suppliers to update or validate their data based on pre-set business rules, such as reaching a particular date or the occurrence of workflow triggers. And buyers can instantly view up-to-date profiles of all their suppliers to spot potential risks. Some electronic invoicing network providers also conform to the International Standard on Assurance Engagements (ISAE) No. 3402. ISAE 3402 was developed to provide an international assurance standard for allowing professional accounting firms to issue a report for use by businesses and their auditors on the controls likely to impact financial reporting. This provides buyers with greater peace of mind that an electronic invoicing network will help them comply with global tax regulations.

4. **Ensuring that invoices contain all legally required data fields**: A whopping 89.6 percent of businesses surveyed for IOFM's AP Department Benchmarks and Analysis indicated that their accounts payable department is responsible for tax reporting. Electronic invoicing networks help accounts payable departments streamline tax reporting by automatically requiring that all legally required data fields be populated before an electronic invoice is approved for payment. Buyers can define business rules at the country level for ensuring that all legally required data fields are captured. And because electronic invoicing networks keep track of all invoice activity, and how much each supplier is paid, buyers can automatically generate tax reports. Similarly, electronic invoicing networks facilitate the request and submission of W-9 or W-8 forms.

62% of CFOs in best-in-class organizations identify compliance and risk mitigation as their top priorities, according to Aberdeen Group.

Conclusion

Global trade and commerce is increasingly conducted electronically. This has put global tax compliance at the top of the agenda for many businesses. In a growing number of countries, businesses must be able to prove the integrity and authenticity of their electronic invoices, across their different processes and trading partners, over a long period of time. The invoice processes used by many businesses are not up to the task. They cannot: manage invoice integrity and authenticity, comply with archiving requirements, provide end-to-end controls between trading partners, or ensure that invoices contain all legally required data fields. Businesses cannot afford the cost and risk of non-compliance. Developing invoicing solutions in-house requires an onerous amount of time and money. As a result, more businesses are turning to advanced electronic invoicing networks that uniquely address the challenges of complying with tax regulations. With an electronic invoicing network, businesses can confidently conduct business globally, to achieve profit and growth.

About Tungsten Corporation

Tungsten's vision is to be the world's most trusted business transaction network by using data intelligently to strengthen the global supply chain.

Tungsten Network is a secure e-invoicing and purchase order services platform that brings businesses and their suppliers closer together with unique technology that revolutionizes invoice processing, maximizes efficiency and improves cash flow management. Delivering trusted connections and streamlined transactions, the network also provides users with real-time spend analysis and offers suppliers access to invoice financing through Tungsten Network Finance, a form of alternative finance for businesses.

Tungsten Network processes invoices for 70% of the FTSE 100 and 72% of the Fortune 500. It enables suppliers to submit tax compliant e-invoices in 47 countries, and last year processed transactions worth over £133bn for organisations such as Alliance Data, Aviva, Cargill, Deutsche Lufthansa, General Motors, GlaxoSmithKline, Henkel, IBM, Kellogg's and the US Federal Government.

Trusted, passionate and proven, Tungsten Network is making the digitization of global commerce between Buyers and Suppliers faster, easier and smarter.

About the AP & P2P Network

The AP & P2P Network is the leading provider of training, education and certification programs specifically for Accounts Payable, Procure-to-Pay, Global and Shared Services professionals as well as Controllers and their F&A teams.

Membership to the AP & P2P Network (**www.app2p.com**) provides comprehensive tools and resources to financial operations professionals who manage or are deeply involved in the Accounts Payable and Procure-to-Pay process.

Focus areas include best practices for every AP & P2P function; AP & P2P metrics and benchmarking data; tax and regulatory compliance (e.g. 1099, 1042-S, W-9, W-8, Sales & Use Tax, Escheatment, VAT, Canadian Tax, Internal Controls); solutions to real-world problems challenging your department; AP & P2P automation case studies; member Q&A networking forums, Ask the Experts, calculators, and more than 300 downloadable, customizable AP & P2P policies, flowcharts, templates and internal control checklists.

A membership to the AP & P2P Network provides tangible ROI to any organization – saving your organization time, money and keeping you compliant.

Over 10,000 professionals have been certified as an Accredited Payables Specialist or Manager (available in English, Simple Chinese and Spanish), and Certified Professional Controller through the AP & P2P Network and its parent company, the Institute of Finance & Management.

AP & P2P Network also hosts the Accounts Payable and Procure-to-Pay Conference and Expo (Spring and Fall), designed to facilitate education and peer networking.

The AP & P2P Network is produced by the Institute of Finance and Management (IOFM), which is the leading organization providing training, education and certification programs specifically for professionals in Accounts Payable, Procure-to-Pay, Accounts Receivable and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams. With a universe of over 100,000 financial operations professionals, IOFM is the trusted source of information in the rapidly evolving field of financial operations.