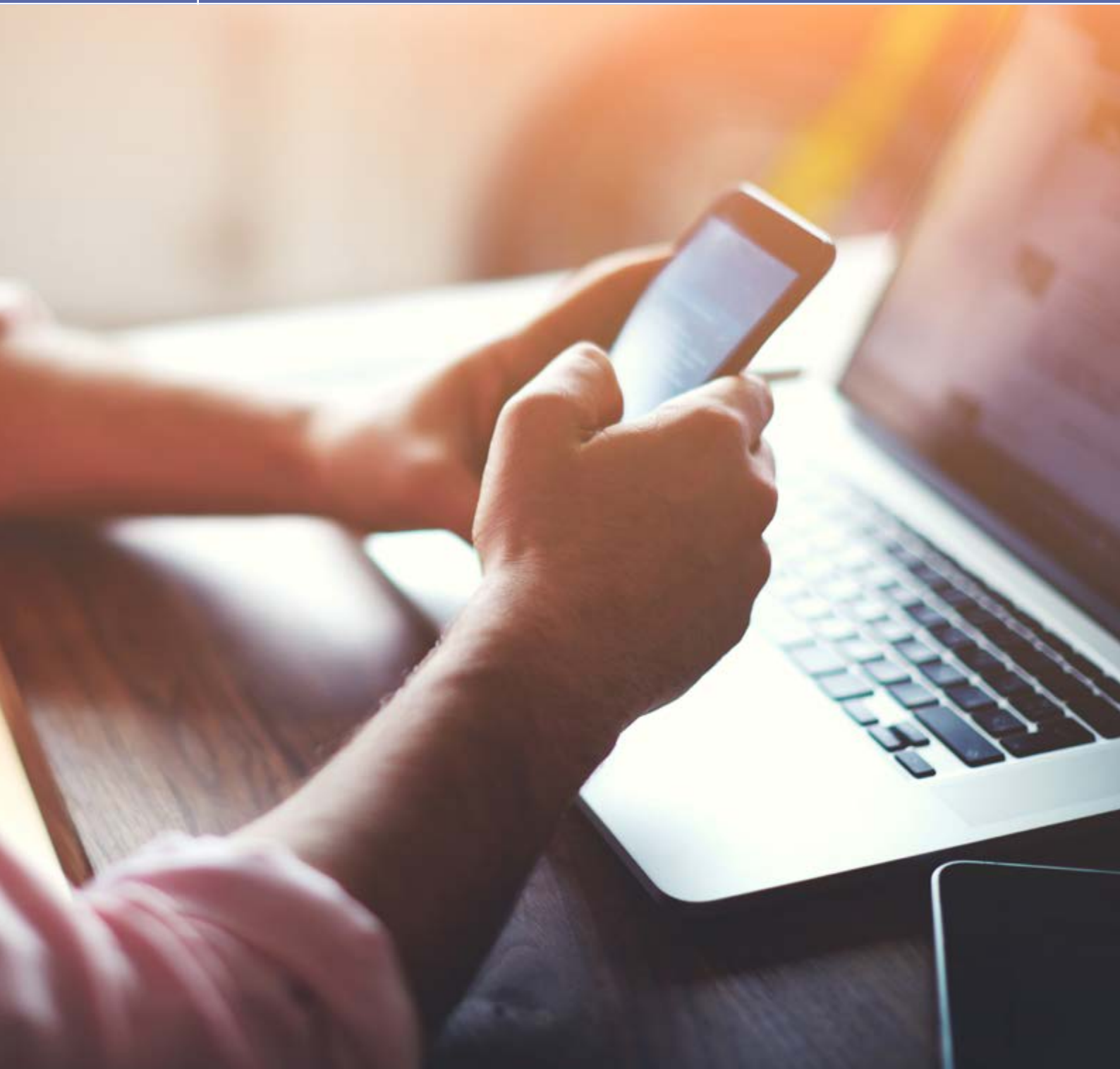


Rödl & Partner

CREATING STRUCTURES

2023

VAT in the EU: National and cross-border E-Invoicing
and Digital Reporting Requirements



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About us

As attorneys, tax advisers, management and IT consultants and auditors, we are present with more than 100 own offices in around 50 countries. Worldwide, our clients trust our more than 5,500 colleagues.

The history of Rödl & Partner goes back to its foundation as a solo practice in 1977 in Nuremberg. Our aspiration to be on hand wherever our internationally-active clients are led to the establishment of our first, own offices, commencing with Central and Eastern Europe in 1991. Alongside market entry in Asia in 1994, the opening of offices in further strategic locations followed, in Western and Northern Europe in 1998, USA in 2000, South America in 2005 and Africa in 2008.

Our success has always been based on the success of our German clients: Rödl & Partner is always there where its clients see the potential for their business engagement. Rather than create an artificial network of franchises or affiliates, we have chosen to set up our own offices and rely on close, multidisciplinary and cross-border collaboration among our colleagues. As a result, Rödl & Partner stands for international expertise from a single source.

Our conviction is driven by our entrepreneurial spirit that we share with many, but especially German family-owned companies. They appreciate personal service and value an advisor they see eye to eye with.

Our 'one face to the client' approach sets us apart from the rest. Our clients have a designated contact person who ensures that the complete range of Rödl & Partner services is optimally employed to the client's benefit. The 'caring partner' is always close at hand; they identify the client's needs and points to be resolved. The 'caring partner' is naturally also the main contact person in critical situations.

We also stand out through our corporate philosophy and client care, which is based on mutual trust and long-term orientation. We rely on renowned specialists who think in an interdisciplinary manner, since the needs and projects of our clients cannot be confined to individual professional disciplines. Our one-stop-shop concept is based on a balance of expertise across the individual service lines, combining them seamlessly in multidisciplinary teams.

WHAT SETS US APART

Rödl & Partner is not a collection of accountants, auditors, attorneys, management and tax consultants working in parallel. We work together, closely interlinked across all service lines. We think from a market perspective, from a client's perspective, where a project team possesses all the capabilities to be successful and realise our client's goals.

Our interdisciplinary approach is not unique, nor is our global reach or our particularly strong presence among family businesses. It is the combination that cannot be found anywhere else – a firm that is devoted to comprehensively supporting German businesses, wherever in the world they might be.



The future of invoicing

In our global-connected and increasingly digitalized economy, tax authorities are focused on transparency of the entire supply chain and are using technological tools to automate the VAT reporting process, from electronic invoicing to digital reporting and electronic accounting.

The development of technologies used by tax authorities is groundbreaking in relation to VAT. This has also been demonstrated in the EU, here in Italy, by the successful introduction and application of e-invoicing with a central clearing system, i.e. invoice transmission to and from the Italian tax administration for domestic B2B and B2C transactions, for several years. These technologies are changing the way taxable persons interact with their recipients (business or non-business customers) and with the tax authority.

E-invoicing in this regard means the generation and transmission of every invoice in B2B and B2C business via a server (centralized or decentralized of the tax administration or a certified private, public server) and is one of the big and challenging issues in the field of tax and IT at the moment.

Beside Italy, many other countries, such as Poland and France from July 2024 ongoing, are now in line to introduce such a reporting system. The next countries could be Belgium and Germany. Gradually by 2028 – according to the current plan – all EU Member States will introduce a reporting system with regard to EU cross-border sales.

A proactive early approach to these changes with a defined tax technology strategy, including e-invoicing and digital reporting will enable companies to achieve cost savings and efficiencies in the future.

In this respect, it is highly recommended to intensively deal with this issue in a timely manner, especially because as told by our clients (from the first consultations and advice on this topic) e.g. that for example the IT-required adjustments and demands in cooperation with the company's internal IT can take far longer than twelve months.

However, dealing with the substantive requirements of national legislators and also the ones of the EU legislator with respective implementation obligations in the individual EU Member States (for entrepreneurs, e.g. implementation on pretend the





data required, to be generated and to be transmitted, on the timeline, on data formats and above all on the business transactions concerned) initially requires an enormous amount of time and costs for implementing the legal requirements.

To assist businesses keep track of these dynamic developments in e-invoicing and digital reporting across countries and regarding the European ideas, we have created an ongoing knowledge base of country evaluations and provide training and individual business case impact analysis.

What is an e-invoice and DRR?

E-invoicing and digital reporting requirements are the new pillar in tax compliance.

The so-called e-invoice has been known in Germany for some years now (especially in Business to Government B2G). An e-invoice meant for e-invoicing is an invoice issued in a structured format that is transmitted and received electronically and enables automatic and electronic processing without media breaks. This means that, unlike an invoice in paper or PDF format, it is designed as a purely semantic data format and thus enables invoice data to be imported directly into the processing systems without media discontinuity.

Moreover, it is characteristic for the so-called e-invoice that it is based on XML format, which is primarily used for machine processing and is not suitable for (human) visual inspection. By using visualization programs, however, the XML data could be read by humans.

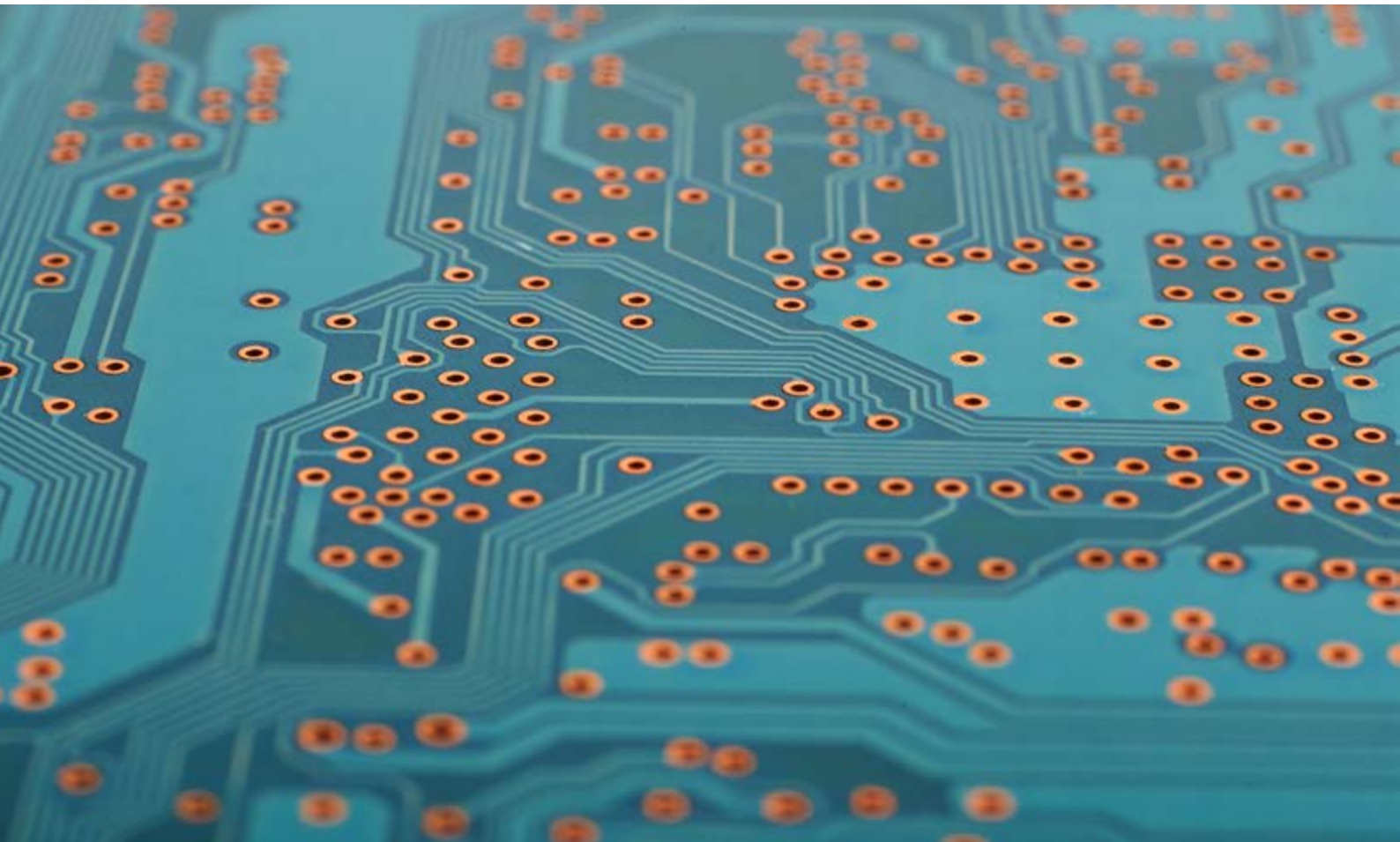
E-invoicing can be enabled via various standards or technical specifications. The European standard (CEN) for e-invoicing DIN-16931 specifies the use of the structured data format XML for electronic invoice exchange, which enables automated invoice processing.

The special feature is that such an invoice is not transmitted directly to the customer, but to the customer via a server of the tax authority or at the same time to a server of the tax authority.

The accompanying further digital reporting requirements are requirements for companies and organisations to capture, retain and disclose certain information in digital form. Digital reporting is now further mandated by legislators and tax authorities to increase transparency and accountability of companies and organisations. Different systems are already designed across the EU.

The advantages of digital reporting are diverse: On the one hand, it enables faster, more accurate and more efficient reporting, as digital data can be processed more easily than paper-based information. On the other hand, it allows tax authorities to monitor and analyze data more quickly to identify potential risks or fraud.

It is important that companies and organisations adapt their systems and processes accordingly and prepare for the transition to digital reporting.



What are the EU proposals for cross-border transactions?

On 8 December 2022, the European Commission published its proposal (COM(2022) 701) to amend the EU VAT Directive (2006/112/EC) and the related implementing regulations as regards VAT rules for the digital age („ViDA“). The amendments include, in particular, digital reporting obligations and the mandatory issuing of so-called e-invoices. This will fundamentally affect all companies performing EU cross-border transactions across all industries and business models and require longterm planning, especially with regard to changes the ERP systems and supply chains.

The proposal of the European Commission only concerns EU cross-border transactions. This is important to distinguish, as the EU cannot and does not want to create an obligation for national e-invoicing in XML format according to DIN-16931. However, there is hope for the introduction of such a format, also for domestic transactions subsequently to the implementation obligation of the EU Member States for EU transactions (after a corresponding application for approval).

IMPORTANT NOTES FOR PRACTITIONERS ON THE ADDITIONAL DATA AND REPORTING INFORMATION

Additional data to be provided in an invoice:

- IBAN / account identification of the supplier to which the payment is credited
- Payment term (in the sense of due date of payment)
- Invoice number of the original invoice in case of an invoice correction
- Issuing of so-called collective invoices should no longer be possible
- No EC Sales List and definition of new digital reporting obligations (DRR), which include the following business transactions: In addition to the reporting of intra-Community supplies of goods, the DRR will also include the mandatory reporting of intra-Community acquisitions; also services that are subject to the reverse charge mechanism in the receiving EU Member State due to the non-residence of the supplier will be included and; supplies underlying the reverse charge mechanism due to Art. 194 of the EU VAT Directive.

The proposal has not yet been formally adopted, so that the timetables for implementation in the EU Member States for “EU transactions” into national law have not yet been finalized; the proposal mentions timelines for different stages (from January 2024 to January 2028, but could be post-poned according to the ECOFIN meeting in June 2023).

In addition to the EU proposals on cross-border transactions, some countries with more concrete timetables already provide for B2B (and B2C) e-invoicing for purely domestic transactions.



Status Quo in the EU Member States

Currently, there is a coexistence of different systems for digital reporting obligations and/or e-invoicing in the EU Member States. Purely national reporting obligations of domestic transactions are foreseen, for example, with Real Time Reporting in Hungary, reporting in SAF-T format in Poland, SII in Spain and a form of e-invoicing in Portugal.

Electronic invoicing with a central reporting / clearing system to the Italian tax authorities for all domestic sales and certain EU sales is currently only practiced in Italy.

ITALY, FRANCE and POLAND are the three countries that have received an EU approval for application so far. From 2024 on, approval by the EU Commission will no longer be required, provided the EU Commission's proposals are adopted. Italy has been applying mandatory e-invoicing from 2019 on, France and Poland plan to introduce it for domestic B2B transactions from July 2024 on. The application for e-invoicing of Belgium was rejected by the European Commission in autumn 2022 but now Belgium is planning to have adjusted e-invoicing for resident companies starting 1 July 2024 for specific businesses.

ITALY

- Central system with SDI
- B2B and B2C – domestic transactions since 2019 et seq. and since July 2022 EU cross-border transactions inbound and outbound (but technically no forwarding to EU customers possible here)

POLAND

- Decentralised system, clearance model KSeF
- Challenges to the demarcation of previous reporting obligations, e.g. cash systems / cash registers
- Gradually from July 2024 on

FRANCE

- Mix / choice of centralized and decentralized system with public platforms, i.e. with obligation to use a “plateforme de dématérialisation partenaire” PDP; gradually from July 2024 an e-invoicing and e-reporting (of invoice data and of payment data) with sophisticated differentiation between the two
- E-reporting requirements also for non-resident traders of certain sizes with French VAT registration and for “transactions under French VAT identification number”



GERMANY

According to information from the German Federal Ministry of Finance, in November 2022 an application was submitted to the European Commission for authorization under Article 395 of the VAT Directive for the introduction of mandatory e-invoicing. Since 17 April 2023, the German Federal Tax Authority discussion proposal for a legislative amendment (in this case, above all to sec. 14 German VAT Act) with the introduction of the mandatory electronic invoice for domestic B2B transactions in Germany has been available for associations for consultation.

Currently planned key points of the proposal:

- Restriction of e-invoicing to domestic B2B transactions
- Timetable (put up for discussion): Introduction of mandatory e-invoicing for domestic B2B transactions from 1 January 2025 onwards
- New definition of e-invoice, based on the ViDA legislative proposal of the EU Commission, based on the CEN 16931 standard (Directive 2014/55/EU dated 16 April 2014)
- Combining paper invoices and electronic invoices that do not meet the requirements for the new e-invoice under the new term “other invoice” and deleting the priority of paper invoices in sec. 14 para. 1 sentence 7 German VAT Act
- Restructuring of the obligation to issue invoices in sec. 14 para. 2 German VAT Act in order to be able to describe B2B invoices in the future
- New specific rules of the statements on the authenticity of the origin of the invoice, the integrity of the content and its legibility
- Turnover thresholds or entrepreneurs affected (put up for discussion): Staggered introduction for temporary relief for small and medium-sized enterprises, e.g. on the basis of the size of the enterprise, the invoice amount or the distinction according to the purchase of invoices or their issuing
- National and EU cross-border B2B transactions are to be mapped in a uniform electronic system for transaction-related reporting
- The exchange of invoices is to take place optionally either via a state e-invoice platform or via private e-invoice platforms that meet the requirements of the administration for secure transmission. The e-invoice platform of the issuer of the invoice carries out plausibility checks

Thus, there are currently two strands to be monitored and the legal requirements in the project to be observed:

EU cross-border transactions	National / domestic transactions
<ul style="list-style-type: none">- Regulations on e-invoicing, data and data formats in the EU Member States for EU cross-border supplies and services- Rules on the reporting and the further data required for this purpose	<ul style="list-style-type: none">- Regulations on e-invoicing, data and data formats in the individual EU Member States for domestic transactions (taxable and VAT-exempt / VAT-able domestic transactions)- Rules on the reporting and the further data required for this purpose

Advice and support by Rödl & Partner

1

KNOWLEDGE MANAGEMENT AND ON-GOING ASSISTANCE

For the topic of e-invoice and DRR, we have already developed an application (Microsoft Power App) for knowledge management and as knowledge base, which is being worked on daily. In particular, the application is to manage and timely updated information on legal and internal administrative developments from the countries.

ONE-INVOICE

This toolset with the „Spot On E-Invoice“ and a uniform invoice, called ONE-INVOICE by us, would be made available to you for this project in order to be able to provide you with excerpts for a quick overview, current information and results sorted by country. This application is managed by us, i.e. we regularly update it to changes / notifications by national and European legislators and on the basis of technical criteria.

Rödl & Partner actively participates in the discussions with the national tax authorities on the planned measures and their design, including obstacles in practice (e.g. how do the reporting obligations of cash registers or SAF-T reports interact with the planned e-invoicing obligations, for example in the retail sector). We keep our clients up to date and accompany the process of introducing e-invoicing for the affected national and cross-border business transactions.

2

IMPACT ANALYSIS

Our advise can further include, depending on client wishes:

- Project management with a timetable based on the legal implementation requirements / plans and prioritization of affected countries – giving you a “roadmap” for the countries
- Coordination of resource management (e.g. for the composition of teams from a specialist department, tax department, accounting and IT department)
- Comprehensive project support at national and EU level for e-invoicing or e-reporting obligations, in this case the VAT-related compilation of the legal requirements according to the differing procedural statuses and data requirements related to the company’s business transactions
- Trainings (overview and country-specific trainings) on the current status in the countries
- Workshops to record the potentially affected sales and business transactions, customers and affected countries as well as an impact analysis by us

3

IT CONSULTANCY, CERTIFICATIONS AND EXAMINATIONS

Country-specific workshops with our VAT specialists can be supplemented by our IT specialists and IT business consultants in relation to the data to be provided in the countries.

We also offer a certification of the records in the system which concerns the respective country requirements for e-invoicing and / or a DRR as planned by the EU and individual EU Member States.

Our IT auditors (IT-AUDIT, AUDIT TECH & DIGITAL SOLUTIONS) from our auditing division are available here. The IDW PS 860 "IT Audit outside the Audit of Financial Statements" is suitable for certification.

Conceivable audit procedures based on the information known at a given point in time are, for example:

- Conformity of the invoice format to the requirements on ZUGFeRD or XInvoice according to DIN EN 16931
- Conformity of system settings and coding according to the respective country-specific requirements and fulfilment of further country-specific requirements
- Recording and assessment of the applied IT-supported processes and systems for the creation and / or receipt of e-invoice
- Tax conformity of archiving and requirements for the necessary procedural documentation

Overview of ideas for a project and support from Rödl & Partner



COUNTRY EVALUATIONS

- Flow analysis and review of the applicable VAT treatment in the countries, for national supplies and “EU Supplies”
- Evaluation of the respective reporting obligations for business transactions (e-invoicing or e-reporting)
- Check legal requirements (comparison with publications of the tax authorities and any codes)
- Check of “priority countries” and continuous monitoring of all countries
- Roadmap in terms of subject matter and timing

IMPACT ANALYSIS

- Individual flow analysis and review of the potentially affected business transactions (in terms of content and amount) in B2B and B2C business, industry-specific features, e.g. shop sales, leasing cases
- Determination of the respective reporting obligations for the business transactions (e-invoicing or e-reporting)
- Legal check of the requirements (comparison with legislation, the publications of the tax administration and any codes)
- Start with „priority countries“



FURTHERS

- Review and update of a reliable audit trail, requirements specification and demands on IT side
- Support for selection / cooperation with software providers, third-party suppliers and e-invoicing platforms
- Knowledge management (monitoring of developments in the countries on a quarterly basis) and transfer within the company
- Resource management and project management and identification of contact persons in the company
- Checking the system settings and coding
- Check for system changes (transition to new ERP systems or releases), testing, implementation and training as well as subsequent monitoring
- Monitoring of sanctions



We are pleased to discuss and advise on how the changes will affect your business and individual transactions.

Please do not hesitate to contact our other VAT specialists, who are available to provide information on the respective (planned and partly already implemented) regulations in the other EU Member States. Dr. Heidi Friedrich-Vache and the core team are centrally available to you.

Your Contact

ROEDL & PARTNER IN THE EU (CORE TEAM)



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