

Public administration: Approaches with E-Invoicing, E-Payment & E-Auditing



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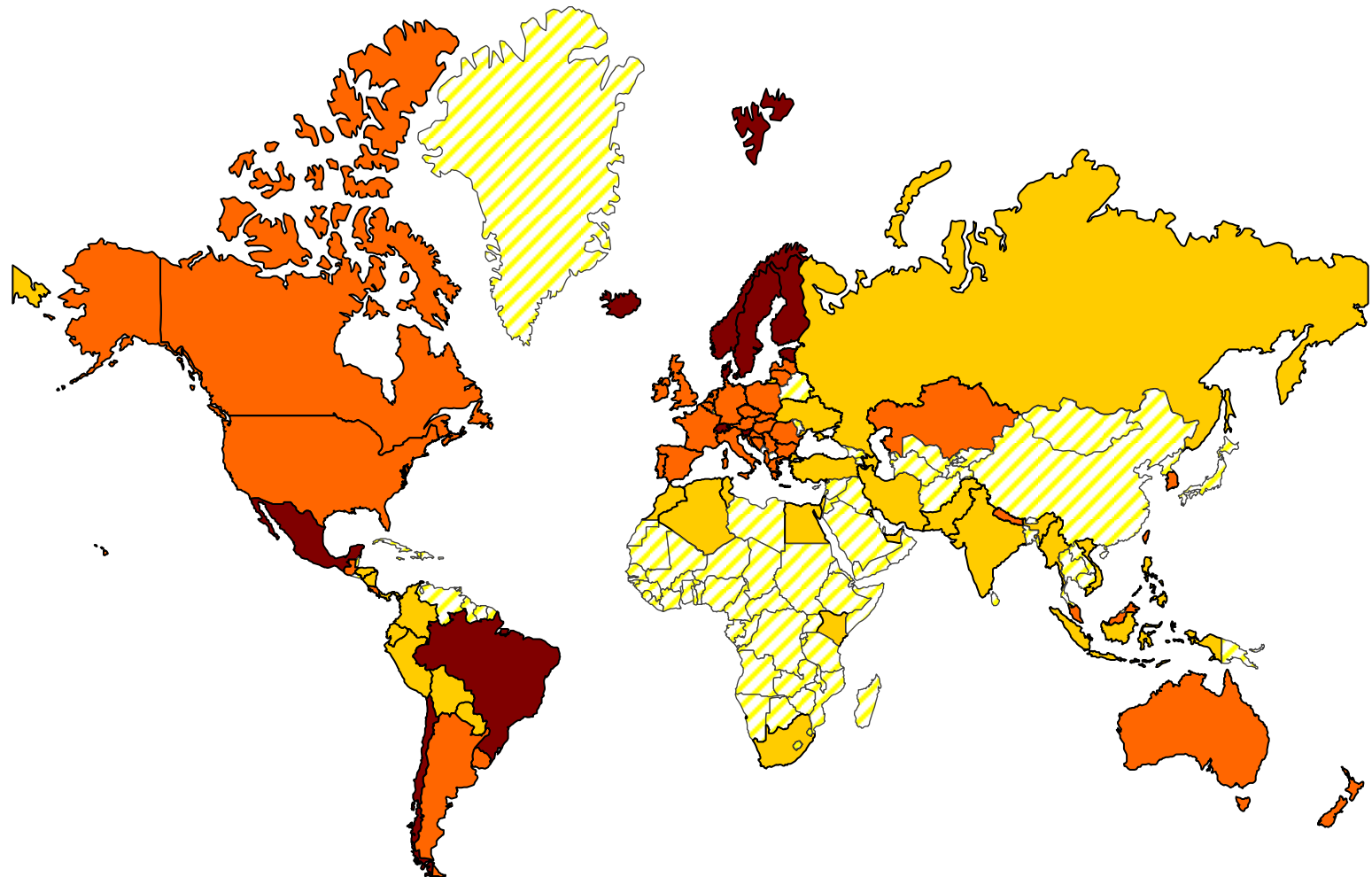
Bangkok, November 29th, 2012



Bruno Koch

- Highly specialized **consulting** company: E-Invoicing, optimisation of Purchase-to-Pay and Financial Supply Chain; More than 150 customers in 50 countries: Federal administrations, large invoice issuers and recipients, solution providers
- **Market analyst**; issuer of market reports and newsletters
- Founder & Chairman of an **international congress** with 300-400 participants
- Company founded in June 1999
- B. Koch (8 years PricewaterhouseCoopers, 4 years Credit Suisse, 2 years SIX PayNet, a Swiss E-Invoicing Service, including involvement to build legislation 1998-2001)

International E-Invoicing Market 2012



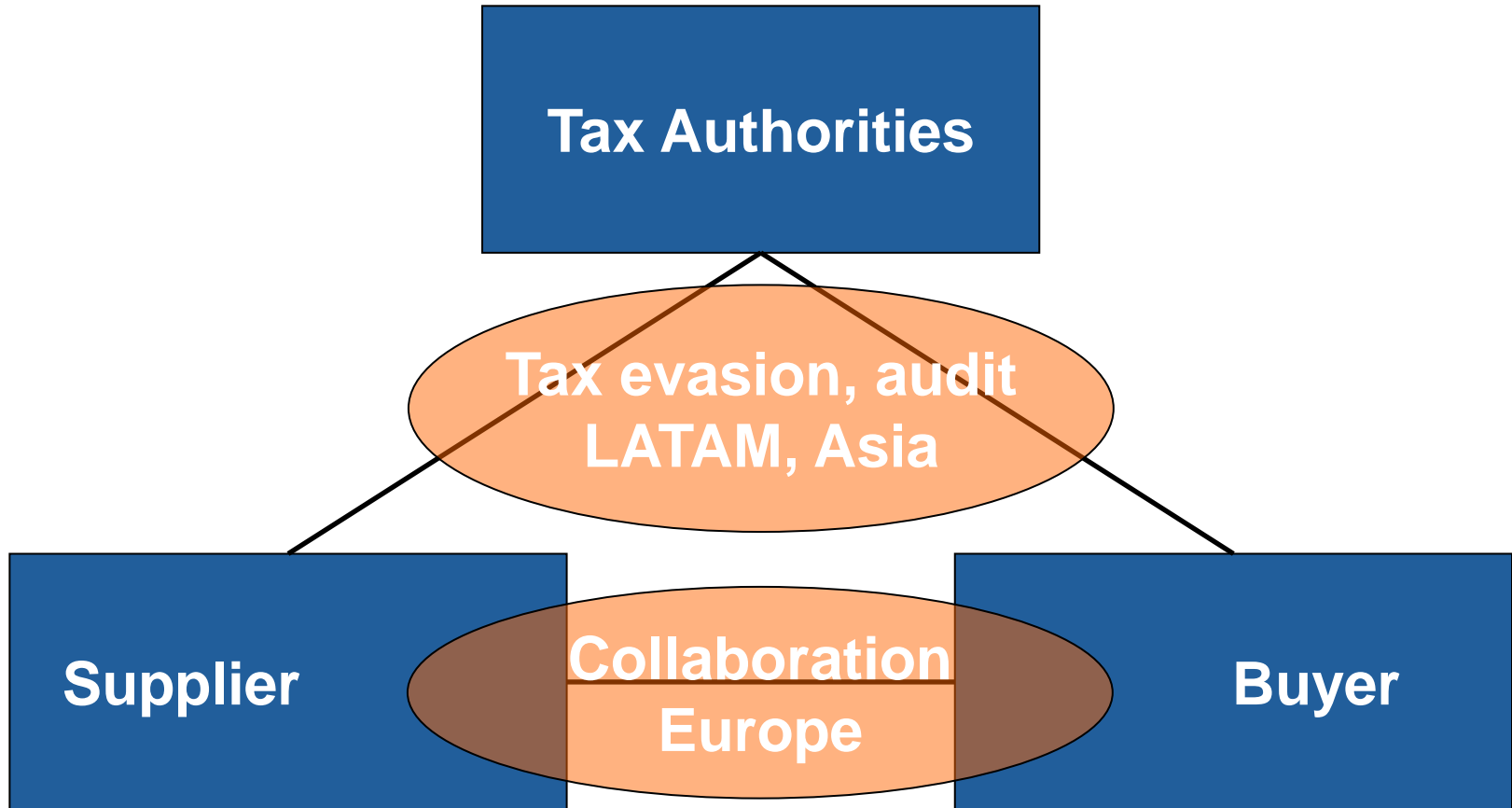
Leaders **Average** **Developing** **Laggards**

Development of E-Invoicing Market Penetration



Recipient segment	Annual bill & invoice volume estimated to be at least		Estimated electronic proportion of total volume in 2012		Estimated annual volume increase of electronic bills/invoices	
	World	Europe	World	Europe	World	Europe
Consumer	200 billion	17 billion	5%	12%	20%	25%
Business & Government	150 billion	16 billion		18%		30%

Current focus of regulators and tax authorities



Approach 1: Reduce tax evasion

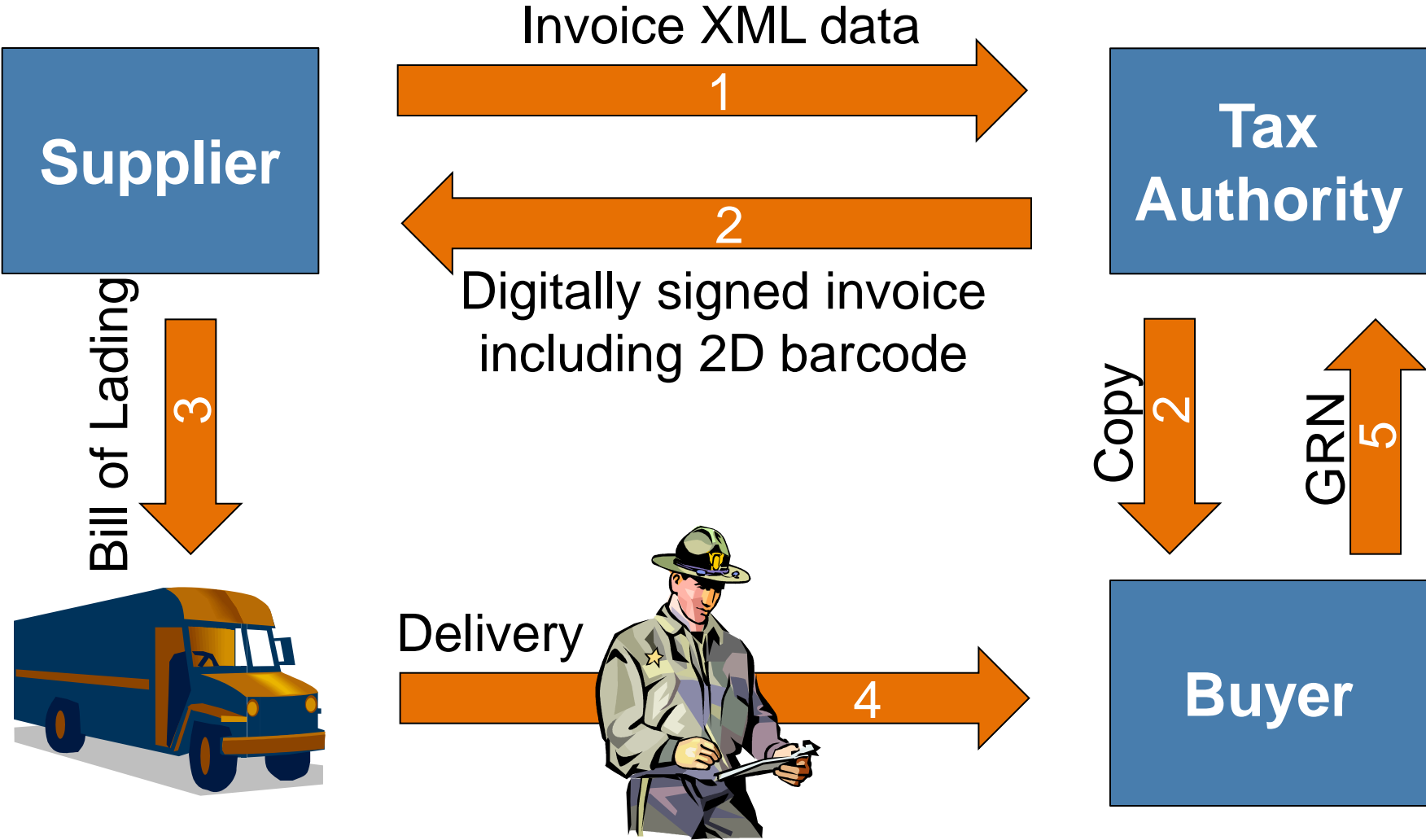
→ Latin America, Asia and increasingly parts of Europe

Reduce tax evasion in Latin America



- Very strict legislation
- E-Invoicing pushed by public sector
- Real-time audit
- Obligations for E-Invoicing announced/planned in Chile, Costa Rica, Guatemala, Uruguay (local stakeholders expect a jump to 70% E-Invoicing market penetration in the country by 2015)
- Brazil, Mexico and Chile as market leaders due to obligations (Brazil & Mexico) or incentives (later due date for tax payment in Chile)

Real-time Audit – Example from Brazil



Asia

- In some countries, just government owned service providers are entitled to act; acceptance for their services is poor
- Some countries mandate the market participants to exchange invoices in electronic format, e.g. Kazakhstan, Nepal, ...
- Other countries are in the progress of closing the loop between tills at points of sale – tax authorities – and clients. This happens either with the help of fiscal printers or electronic receipts (similarities with E-Billing)

Europe

- EMCS; Control system to avoid evasion with customs duty
- Regulations to make payments above certain amounts e.g. EUR 1000 or 1500 just via electronic channels (Greece, Italy)
- Electronic reporting of balance sheet and income statement
- Electronic loop between tills at point of sales and tax authorities

Does E-Invoicing really reduce tax evasion?



Yes

- Audits can be done real-time or near real-time; chance to detect unfair methods increases
- Data-mining by tax authorities based on electronic data is easier and faster than based on paper invoices
- It works definitely with a holistic approach like in Brazil or if certain market segments are selectively considered (e.g. import invoices in Argentina, free professions in Costa Rica)

No

- If integrity is just ensured on invoice message level; it is unlikely that tax evasion will be mainly done by manipulating data on a certain invoice
- A major proportion of tax evasion happens through “no invoicing”, “over-invoicing” and “under-invoicing”; mandating just parts of the market for electronic invoicing does not solve this problem!

Approach 2: Improve competitiveness of the whole economic region

→ Europe

- Holistic collaboration approach involving most important stakeholders; E-Invoicing as an essential standalone discipline for supplier to buyer collaboration
- Meanwhile relatively mature market, also for millions of SMEs; they can just start without asking for any permission of tax authorities; they have not to report anything additional
- Growing market penetration

Electronic share*	2008	2009	2010	2011 (E)	2012 (E)	2013 (E)
B2C	4%	5%	7%	10%	12%	15%
B2B/B2G/G2B	6%	8%	10%	14%	18%	23%

*) Only the portion which is fully electronic from end-to-end including archiving & tax-compliant

Key stakeholders pushing the E-Invoicing market



- Large invoice issuers and recipients
 - Issuers with advanced on-boarding methods, incentives and penalties
 - Recipients with the power play as large buyers
- Regulators and tax authorities
 - European Commission & national regulators push the digital collaboration between suppliers and buyers
- Solution and Service Providers
- Market communicators
- Industries with high invoice volume
 - **Issuers:** Telco, Utility, Card, Media, Logistics, Healthcare, Public Sector, Insurance
 - **Recipients:** Retail, Healthcare, Public Sector

- Legally permitted E-Invoicing methods in the past
 - EDI (single EDI messages without signatures, but complemented with collective invoices for tax reasons)
 - Signature method (integrity and authenticity guaranteed on message level)
 - Other electronic means
- To be supported in EU member states **after January 1st 2013**
 - EDI and Signature method stay valid, but are enhanced with
 - **Equal treatment (ET) method of paper and electronic invoices** (integrity and authenticity guaranteed on process level **without digital signature**)
- Revision of European E-Signature Directive in progress

Invoice audits in case of ET method based on two- or three-way audit trail. Other messages like orders, delivery notes and goods received notes will become more important and accelerate that part of electronic supply chain.

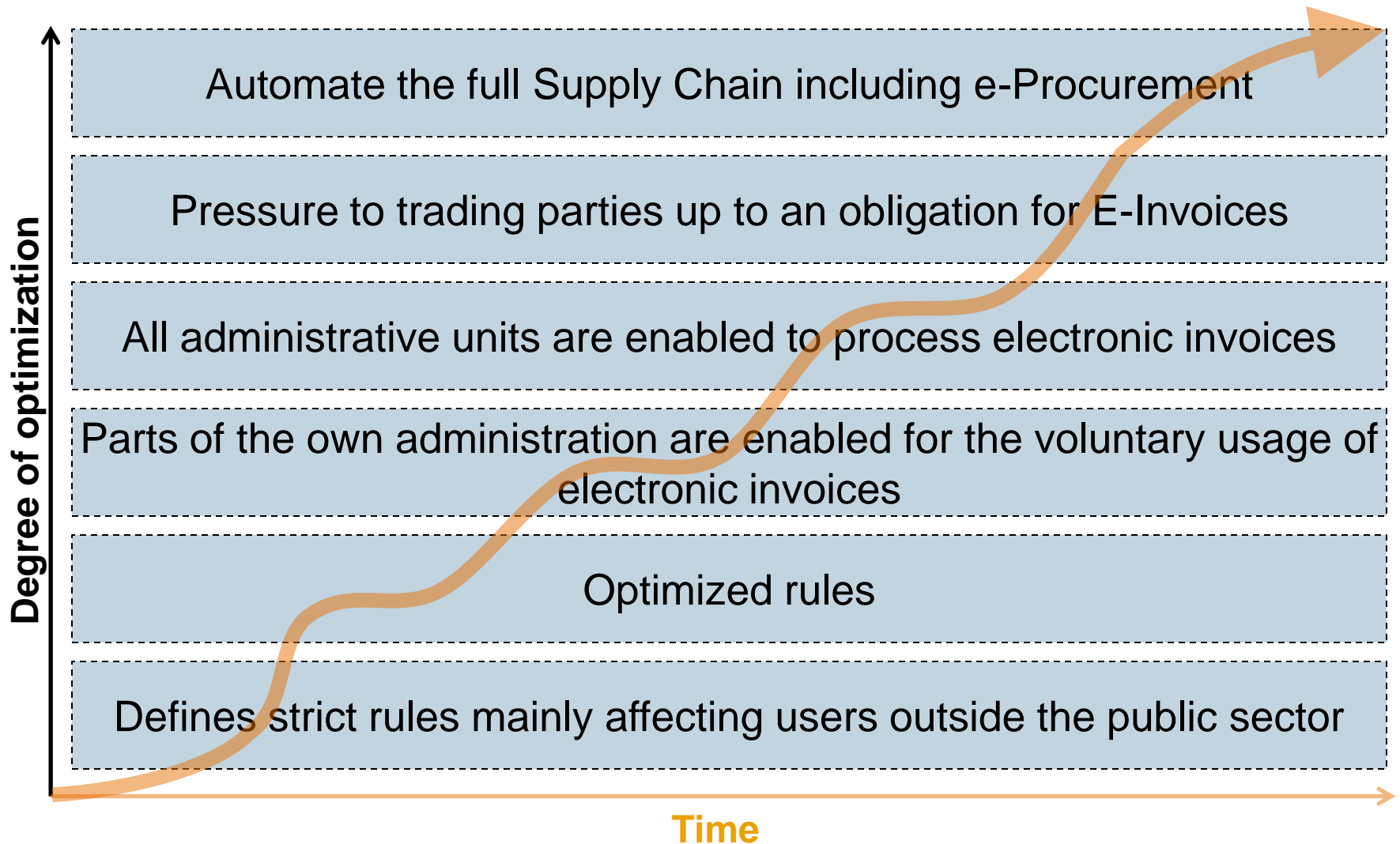
European Commission pushes/supports E-Invoicing, e.g.

- Activities to achieve an efficient framework for E-Invoicing (with main focus on electronic invoices in structured format/EDI)
- Improve legal environment; remove as many barriers as possible
- Promote the digital participation of SMEs
- Promote an E-Invoice standard model
- European Multi-Stakeholder Forum
- PEPPOL

Other supportive initiatives

- Directive 2011/7/EU on combating late payment; to be implemented into national law by March 2013
- Revision of the E-Signature Directive

Public Sector & E-Invoicing Evolution in Europe



Public sector is responsible for 15-18% of all purchases made in a country.

45-65% of all companies are suppliers for the public sector and send invoices to its administration.

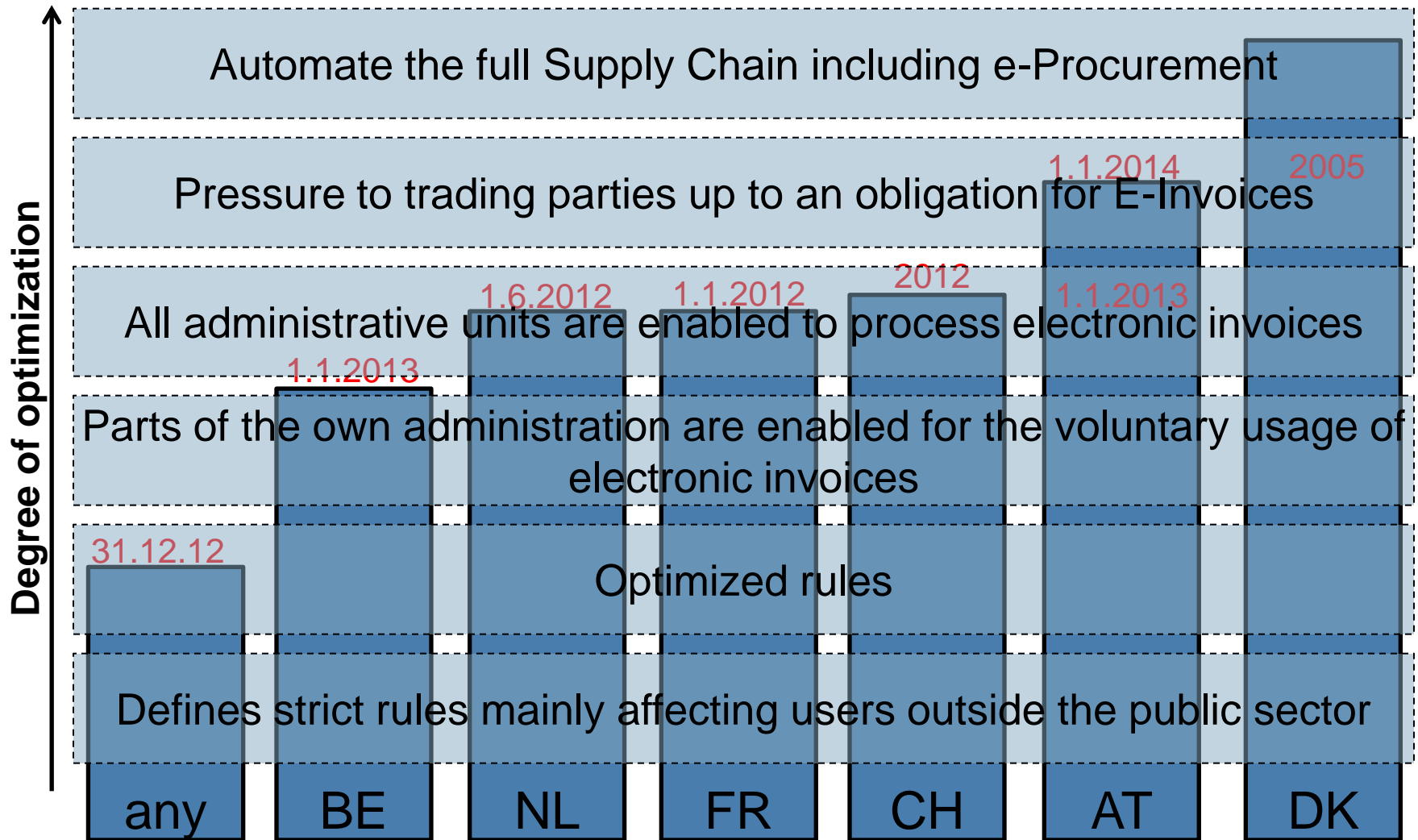
100% of all enterprises and households receive invoices from the public sector.

European Solution and Service Providers educate and push the market



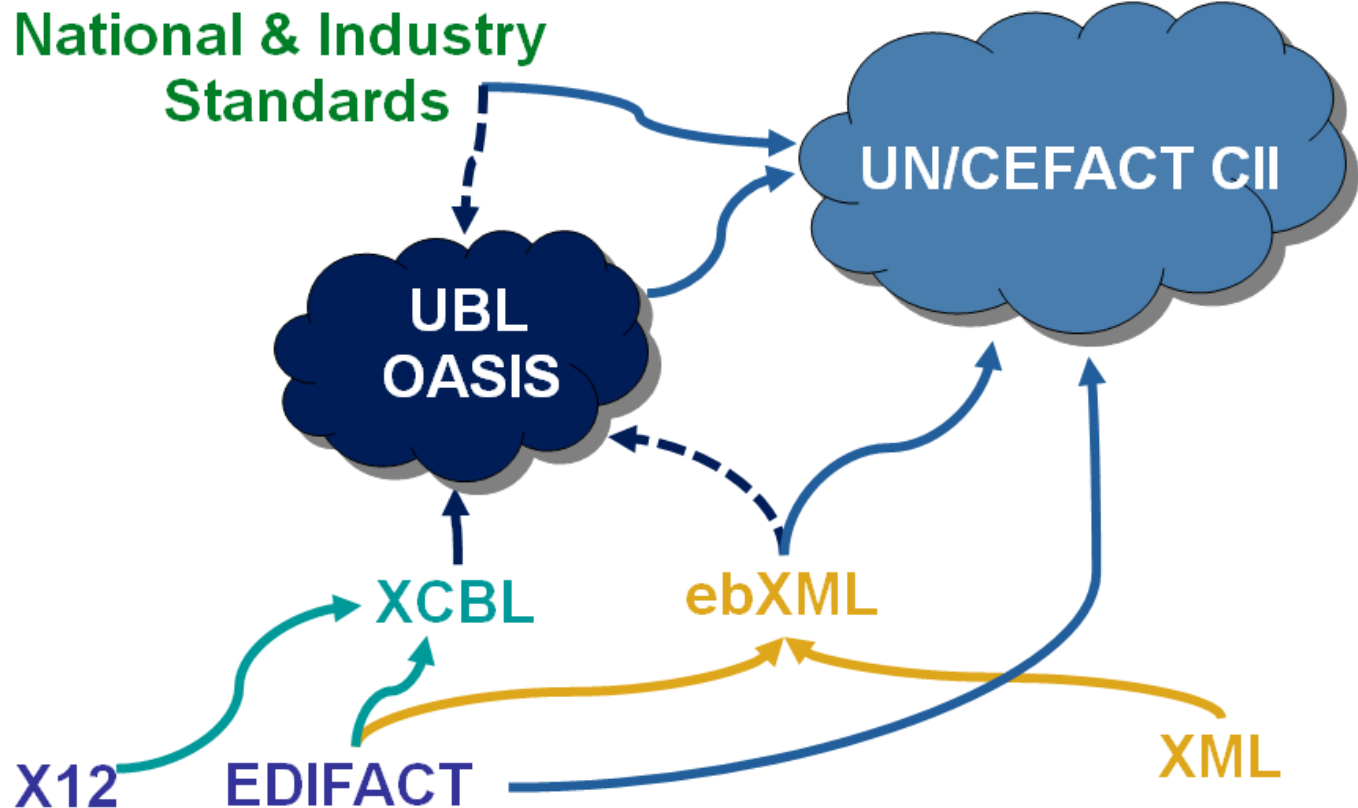
- **E-Invoicing solution providers**
 - 200+ application providers for bilateral exchange among users
 - 500+ E-Invoicing network operators (Service Providers)
 - Some of them employ 50+ sales and account managers
 - Assuming an average of 5-7 sales / provider, they are totalling up to 5,000 market influencers
- The number of **ERP and accounting software vendors** is estimated to exceed 10,000; many of them do not communicate much/sufficiently and therefore do not yet accelerate the market penetration very actively

Public Sector as Catalyst for Mass Market



Align Country and Industry specifications

Still, most countries/industries believe to be so individual, that they prefer to work within closed user groups. However cross-industry exchange of information is improving and alignment is launched; attempt to protect past investments



Source: Document Engineering Services

Approach 3: Reduce own administration costs

→ Europe, USA

Projects with high ambitions for the public sector as E-Invoicing user, e.g.

- Austria (Invoices to the national administration have to be 100% electronically from 2014)
- Belgium (objective: 50% in 2015)
- Denmark (mandatory since 2005)
- EC: Adoption of E-Invoicing in all 48 Directorate-Generals and Executive Agencies by January 2013
- Finland is already close to 100%
- Norway (mandatory since mid 2012)
- The Netherlands (objective: 80% in 2014)
- Switzerland (100% of all federal levels shall be enabled for In- and Outbound E-Invoicing in 2016)

USA

- No VAT system in place as in many other countries; therefore just moderate legal requirements for E-Invoicing
- US Treasury Bureaus are mandated to implement Internet Payment Platform (IPP) by end of 2012; by 2013, Treasury will require that its commercial vendors submit their invoices using IPP

Asia

- Federal administration mandating its suppliers to send invoices electronically: Singapore

The strongest market accelerators by public administration



- Obligation to exchange country-wide just electronic invoices (Brazil, Mexico, Uruguay, Kazakhstan,...), managed and enrolled by the government based on a step-by-step approach
- Obligation for suppliers to public sector just to send electronic invoices (Austria, Denmark, Norway)
- Voluntary usage, but strong push by public sector as user (Finland, Sweden, Switzerland)
- Very user friendly regulations with little barriers
- Federal administration coaches a multi stakeholder forum
- Build an encouraging environment for a high number of service providers with strong competition
- Use of an international semantic invoice standard or a country specific subset of it

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