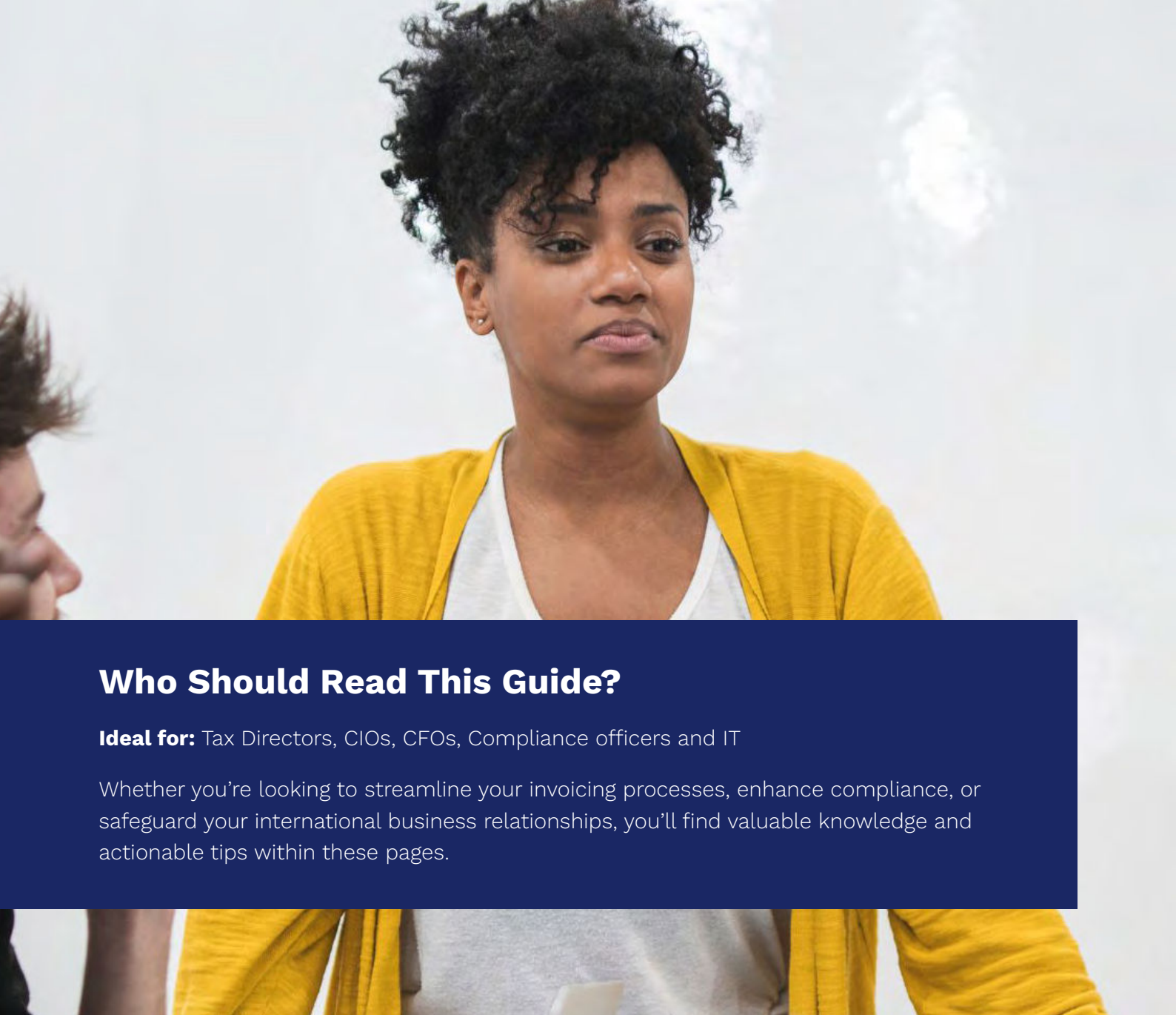


Your guide to

The global challenge of CTC and eInvoice mandates

Are you trading with overseas suppliers? Are you overwhelmed by the maze of eInvoice mandates and CTC requirements coming your way? This guide will help you prepare.





Who Should Read This Guide?

Ideal for: Tax Directors, CIOs, CFOs, Compliance officers and IT

Whether you're looking to streamline your invoicing processes, enhance compliance, or safeguard your international business relationships, you'll find valuable knowledge and actionable tips within these pages.

Introduction

In the coming years, numerous countries will be mandating eInvoicing and Continuous Transaction Controls (CTCs), signalling a shift toward fully digitised tax reporting and payments.

For businesses with a global reach, supply chain alliances, or overseas operations, preparing for these changes is not just important - it's imperative. However, deciphering these mandates can feel like a complex puzzle, filled with intricate regulations, technical details, and unpredictable timelines.

This report aims to clarify the relationship between CTC mandates and the integration of eInvoicing in your business, helping you avoid potential fines, delayed payments, and, in some cases, loss of business.

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Three key takeaways

This report is your guide to understanding the shift towards eInvoicing within the global context of CTC mandates. It delves into the driving forces behind these mandates, the compliance complexities, and the solutions to navigate these challenges, ensuring your business stays ahead in digital tax reporting.

1. Bridging the VAT Gap:

Governments worldwide aim to close the VAT gap through a concerted push towards eInvoicing and CTC mandates. This requires businesses operating globally to adapt and comply, enhancing tax revenue collection and transactional transparency.

2. Navigating the CTC Maze:

The diversity of CTC models and requirements presents a considerable challenge. A thorough understanding and adaptable compliance strategy are essential for maintaining smooth global operations and avoiding penalties.

3. Overcoming Technical Hurdles:

The transition to eInvoicing, in line with CTC mandates, is often hampered by technical and resource constraints. Comprehensive eInvoicing solutions can facilitate efficient compliance without requiring extensive internal infrastructure overhauls.



Why global tax authorities mandate CTC

The widening VAT gaps are causing tax authorities worldwide to tighten up their regulations. Their main objectives are to enhance the efficiency of tax collection, combat tax evasion, and ultimately increase tax revenue.

By implementing CTC mandates, authorities can gain a closer look into a company's transactions. For example, businesses must send their invoice data to tax authorities, often in real-time. This not only allows for greater visibility but also grants the tax authorities a degree of operational control over transactions.



Reducing the VAT gap:

A prime example of the impact of these digital tax initiatives is the significant reduction in the EU's VAT gap. The 2023 figures, based on data from 2021, showcase a drop from approximately 99 billion euros in 2020 to about 61 billion euros in 2021. It's clear the move towards digitisation, real-time reporting, and eInvoicing is paying off. This success story in EU countries like Italy encourages others to consider similar mandates for Accounts Receivable (AR) invoice processing.



Enhancing tax process efficiency:

It's not just about cutting down direct costs like paper and manual processing; it's also about building a more efficient ecosystem around electronic data. This includes everything from better payment methods and financing options to automating the filing of mandatory returns.



Gaining economic insights:

The use of CTC goes beyond the realm of tax regulation, offering valuable insights into economic trends. This includes monitoring highs and lows in specific industries, changes in sales patterns at a national level, and identifying key market participants. Such data is instrumental in crafting informed policy frameworks.

The risks of ignoring CTC mandates

Turning a blind eye to eInvoicing and CTC mandates is not an option. Tax authorities are imposing fines and penalties on businesses that fail to meet these new standards and procedures.

The journey towards compliance is complex, requiring a nuanced understanding of each country's regulations—a task that becomes particularly daunting when dealing with multiple trading partners and jurisdictions.

- **Fines and penalties:**

The most immediate consequence of non-compliance is financial. Penalties can range from a percentage of the transaction values of incorrectly processed eInvoices to fixed amounts for each error. In more severe cases, significant breaches of CTC regulations could even lead to criminal charges. For instance, the Malaysian tax authority has announced hefty fines along with a penalty of up to six months imprisonment for failure to comply with the eInvoicing mandate.

- **Lost business opportunities:**

Technical inadequacies in issuing or receiving e-documents can significantly hinder your ability to conduct business, especially in scenarios like public procurement, where eInvoicing is a critical requirement. Non-compliance can thus lead to being sidelined in tender processes.

- **Invoice payment delays:**

Incorrect or non-compliant invoices face processing delays, directly impacting your cash flow and financial health.



Failure to comply can lead to hefty fines, strained supplier relationships, or even a halt in business operations.

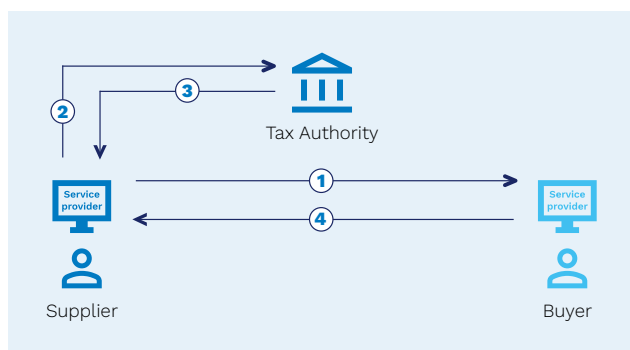
Understanding CTC

CTC equips tax authorities with the means to collect data from business transactions in real or near-real-time, directly from the transactional systems. This is a departure from traditional tax reporting, where audits would occur well after transactions had concluded, relying on aggregated data from businesses.

The shift to CTC reduces the reliance on businesses' account ledgers, allowing for the real-time collection of transactional information, making it challenging for businesses to obscure revenue or tamper with financial records.

Exploring the four main CTC models

Tax authorities have crafted a variety of CTC models around the world, each with its specific set of rules for managing and reporting business transactions:

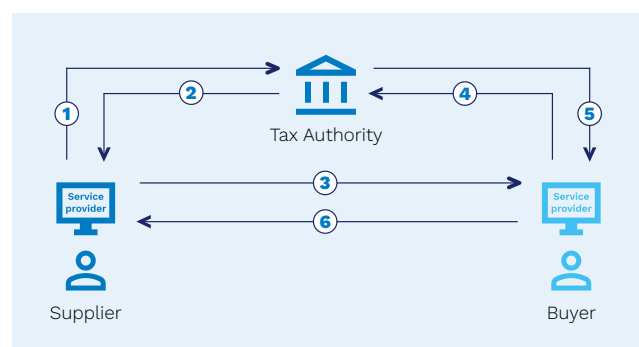


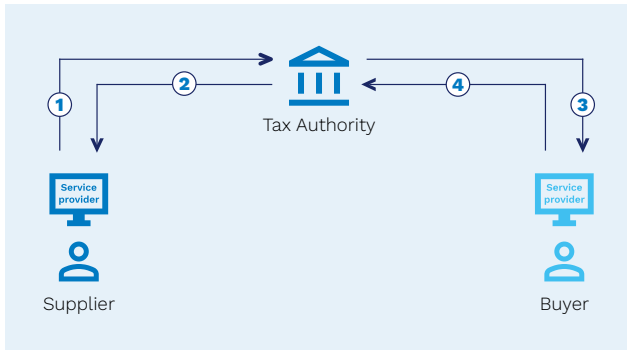
Real-time reporting (RTR):

The seller is tasked with reporting particular invoice details to the tax authority in real-time right after it's issued to the buyer. The eInvoice must comply with a mandatory format and include key data such as document type, names, VAT numbers of the trading partners, and the VAT amount.

Clearance:

This model is split into pre-clearance (or hard clearance) and post-clearance (or soft clearance). Pre-clearance demands that invoices get the nod from local government agencies before they're dispatched to the buyer. The post-clearance model, however, allows taxpayers to send invoices to buyers first and then seek clearance from the tax authority shortly after. Originating in South American countries around 2002, this model is finding its feet in Asia and the Middle East.





Centralised exchange:

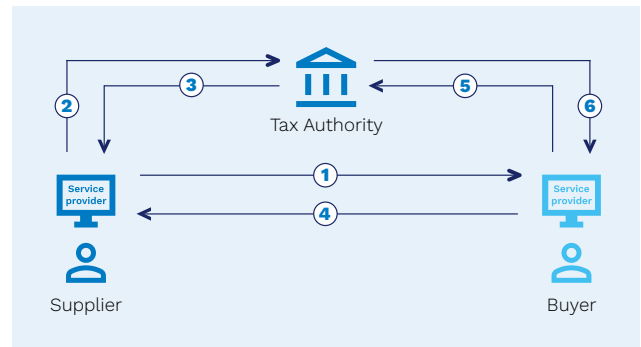
In this setup, all AR invoices, complete with all required data, must be digitally issued through a government-operated CTC exchange. This body is responsible for reporting and processing the invoice and then directly communicating with the seller. It prohibits the direct exchange of invoices between trading partners.

Italy uses this model. It recently expanded its mandate to encompass all B2B transactions, significantly reducing tax evasion, and inspiring other countries like Poland to consider a similar expansion.

Peppol CTC or decentralised CTC and exchange (DCTCE):

The Peppol network facilitates the electronic exchange of documents in a specified format through a Peppol Service Provider when dealing with public bodies across the EU.

Peppol CTC, an advancement of this model, necessitates that the seller's Peppol Service Provider report all transactions to the local tax authorities in real-time, as well as the buyer's Peppol Service Provider. The DCTCE model follows the same principles but does not require documentation to be exchanged in a Peppol standardised format.





Understanding eInvoicing

Transitioning from manual invoice processing provides significant time and cost efficiencies through digital transformation. Instead of paper, companies now send and receive invoices in digital formats via specialised eInvoicing platforms that automate issuing, exchanging, and payment of invoices.

While eInvoicing doesn't always require a real-time connection to tax authorities, its adoption is increasingly becoming a cornerstone for CTC compliance. As countries move toward CTC implementation, eInvoicing is becoming a key method for transmitting and collecting data.

Typically, the creation of eInvoicing standards precedes the introduction of CTC mandates. This means that even if immediate electronic reporting isn't currently required by a government, it's very likely on the horizon.

How eInvoicing works with CTC

Navigating the world of CTC mandates across multiple countries presents a unique challenge due to the lack of a uniform standard. Initiatives like the EU's VAT in the Digital Age (ViDA) are in the works to create regional standards, but many are still in the discussion phase. As a result, each country has taken its own approach to compliance.

This situation necessitates that businesses fully understand and comply with each country's specific regulations, reporting frequencies, and data specifications. Companies might need to upgrade their systems, develop new processes and workflows, acquire new skills, and foster better communication and information sharing across departments to meet these varied requirements.



The complexities of eInvoicing and CTC setup

Achieving a seamless eInvoicing/CTC integration demands the correct technical setup and data transmission processes, all tailored to the specific technical demands of each country involved.

When operating across different tax jurisdictions, it's essential to collect and transmit the necessary data to the respective governments in the required format and within the set timelines.

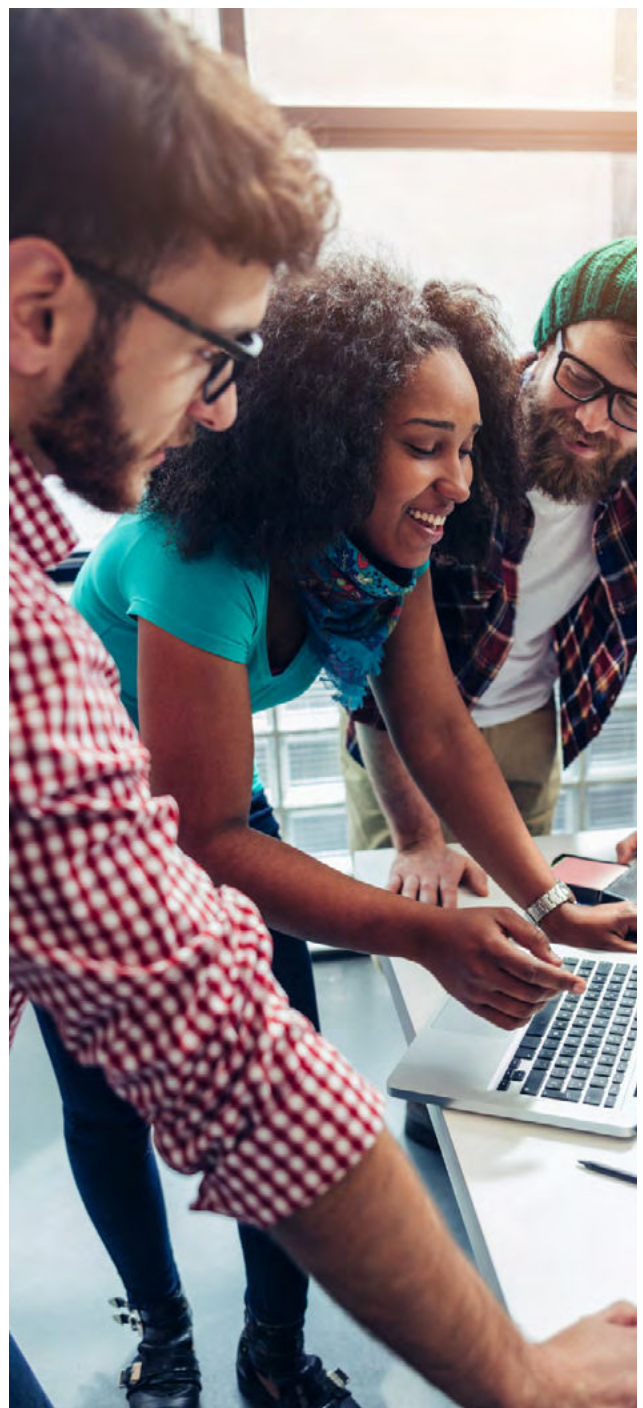
Full integration

The implementation should be strategic, minimising disruption to everyday business operations like selling, invoicing, and purchasing. Integrating eInvoicing CTC protocols directly into the company's core business processes is more efficient than treating it as a separate, standalone process.

Sufficient resources and monitoring

The resources required for initial setup and ongoing compliance across various regions are significant. eInvoices are effective only when every data field on the invoice precisely matches the format requirements of the host country. Even a minor error, such as an incorrect digit or space, can disrupt the entire process.

Furthermore, each country may have its own set of rules about reporting protocols, coding for products or services sold, the content required for sharing, and the process for gaining authorisation and accessing the government's systems. These rules are subject to change, making compliance a moving target and underscoring the need for a dynamic and responsive compliance strategy.



Preparing for eInvoicing and CTC mandates

If you're about to receive an eInvoice mandate, having the proper technological infrastructure is paramount. At a basic level, this involves adopting a cloud-based ERP system that seamlessly integrates with government tax systems and supports various eInvoicing software solutions, whether developed in-house, provided by the tax authority, or created by third-party vendors.

Many businesses dealing with international suppliers in countries with eInvoicing mandates might lack the necessary internal technological capabilities or the resources to maintain and monitor data exchange across multiple tax authorities. Therefore, integrating a tax-compliant eInvoicing solution that can effortlessly work with their existing ERP system becomes crucial.

Taking proactive steps to prepare for these mandates is better than scrambling to comply at the last minute:

- 1. Conduct a system audit:** Start by thoroughly auditing your current systems to identify any gaps in your readiness for eInvoicing and CTC compliance. Then, evaluate the capabilities of your existing ERP system to determine if additional modules or third-party solutions are necessary.
- 3. Plan for scalability:** Opt for scalable solutions. As your business grows and enters new markets, your eInvoicing system should be able to adapt to new regulatory environments without the need for significant overhauls.

- 2. Stay informed on regulations:** It is essential to stay up-to-date with the evolving eInvoicing regulations in each country you operate in. Regulations can change, so subscribing to updates from tax authorities or consulting with tax experts can help you stay ahead.

[You will find the latest country-by-country CTC requirements in the Transalis eInvoicing Country Directory](#)

- 4. Invest in training:** Ensure your staff are well-versed in the new eInvoicing systems and understand the importance of compliance. Regular training sessions help reduce errors and enhance operational efficiency.

- 5. Leverage automation:** Automating as much of the eInvoicing process as possible can minimise the risk of errors and improve efficiency. Features like auto-validation of invoices against tax authority requirements are invaluable.
- 7. Test your systems:** Conduct thorough testing before fully deploying your eInvoicing system to ensure it meets all technical and regulatory requirements. Include scenarios that mimic real-life transactions in your testing.
- 6. Collaborate with suppliers and customers:** Working closely with your suppliers and customers is essential to ensure they are also prepared for eInvoicing. Smooth transactions require compliance from both parties.
- 8. Establish a continuous monitoring process:** Implement a process for ongoing monitoring and updating of your systems to ensure constant compliance with eInvoicing and CTC mandates. Regular reviews can help identify and rectify potential issues before they escalate.

By adopting these measures, organisations can not only prepare for the current landscape of eInvoicing and CTC mandates but also position themselves to effortlessly navigate future regulatory changes.



Why choose Transalis eInvoicing for CTC compliance?

Transalis is a leader in supply chain connectivity, with over two decades of experience in providing EDI, eInvoicing, and system integration solutions, for businesses of all sizes and industries.

With Transalis, your organisation can issue, receive, and process invoices electronically, ensuring full compliance with local eInvoicing and CTC regulations, regardless of the sector or countries in which you operate.

- **Global expertise:**

Transalis brings the capability to manage the entire invoice processing cycle in any country with eInvoicing and CTC mandates, leveraging extensive experience with global brands. This expertise ensures your business can navigate smoothly and compliantly across international borders.

- **Scalable technology:**

Transalis offers cloud-based solutions that provide the agility your company needs to swiftly adapt to regulatory changes in new jurisdictions, all while ensuring uninterrupted operations.

- **Versatile integration:**

The adaptability of Transalis solutions allows for seamless integration with any ERP platform, business system, or invoice API, facilitating a smooth transition and maintaining your existing workflows.

- **Unmatched reliability:**

Designed to handle high volumes of invoices even during peak periods, Transalis eInvoicing guarantees that your business operations remain steady and reliable.

- **Stringent security:**

With a commitment to the highest industry security standards, including compliance with the EU's GDPR framework, Transalis ensures the protection of your data and privacy.

- **White glove support and onboarding:**

Transalis distinguishes itself by offering personalised support and onboarding services, ensuring your transition to eInvoicing and compliance with CTC mandates is as smooth and stress-free as possible. A dedicated team is on hand to guide you through each step of the process, from initial setup to full-scale deployment.

By partnering with Transalis, you're choosing a trusted partner in supply chain connectivity, equipped with the expertise to support your business with today's eInvoicing and CTC requirements, as well as giving you the flexibility to face tomorrow's challenges with confidence.



Transalis eInvoice solutions

If you're already mandated to submit your invoices to suppliers via a regional tax authority, or if you're about to be, talk to us. Our experts can help you understand your risk and explain how the Transalis eInvoice solution can streamline your compliance process.

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