Modernising Ireland's Administration of VAT - Consultation Questionnaire

All responses to this Questionnaire will be treated in the strictest confidence and only the answers to Section A may be released under the Freedom of Information legislation.

Section A - General Consultation Questions
§A: Business to Business (B2B) and Business to Government (B2G)

Revenue is keen to reform Ireland's domestic VAT B2B and B2G Reporting system so that it is easier and seamless for businesses to comply with their VAT reporting obligations. Aligning the reporting and compliance requirements more closely with the normal operations and financial processes of the business, will increase the accuracy of returns and reduce the risk of errors and omissions.

1. What are your views on the proposal to introduce real-time reporting for B2B and B2G transactions?

[redacted] welcomes the opportunity to contribute towards the Ireland VAT Real-time Digital Reporting and E-invoicing Public Consultation. We recognize the value of implementing a Continuous Transaction Control (CTC) type system such as real-time reporting as it provides greater compliance certainty for tax authorities. CTC systems can also provide some limited simplifications/benefits for businesses, but only, (1) to the extent it is as simple as possible, (2) if it leverages existing technical specifications, systems and processes that have been seen in other jurisdictions and, (3) if appropriate lead time and detailed guidance is provided for implementation. These three elements are required to ensure the regime causes minimal disruption to businesses and their customers.

Generally, we are in favour of systems with mandatory e-invoicing alongside real-time reporting of data (hereinafter "e-invoicing") rather than those systems that require only the reporting of data with legacy invoicing flows (e.g., PDF) continuing as usual (hereinafter "real-time reporting").

In our view a real-time reporting regime will provide tax authorities with transactional level information as the transactions occur rather than having to rely on the filing of VAT returns by taxpayers at a later date. This is likely to help taxpayers with resolving Revenue compliance interventions quickly and help Revenue with detection of suspicious transactions at an earlier stage. We also recognise that a real-time reporting may be easier and less costly to implement than an e-invoicing regime. However, we have seen in practice (in Spain) that real-time reporting could cause uncertainty for Revenue due to mismatches when reconciling transactions between taxpayers. This occurs because the buyer and seller must both independently record and report the transaction, with the potential for errors during this process.

E-invoicing, in comparison, provides a single structured electronic tax record (the e-invoice), which reduces processing errors and potential for mismatches, while still providing Revenue access to (quasi-)real-time transactional level information. In addition, e-invoicing is a more efficient regime to implement as it fits into and allows for automation of existing business processes, rather than layering additional reporting obligations. Overall, we believe that einvoicing is likely to be the best longer-term solution for achieving international consistency and is likely more effective and efficient for closing the VAT gap.

2. What matters should be considered in planning for a transition to a new VAT Reporting system?

In our experience there are a number of key questions tax authorities must carefully consider and answer during the early stages of a real-time reporting or e-invoicing implementation. These include:

1. What is the tax authority's ultimate objective? What defined and measured problem is being solved for? Does the benefit accruing primarily to the tax authority) exceed the cost (borne primarily by the taxpayer)? Overall, is the planned implementation proportionate?

2. Will the tax authority implement e-invoicing or real-time reporting?

3. What lead time will be needed for both taxpayers and the tax authority to be ready?

4. What is the minimum data set needed to be reported to meet the tax authority's needs?

5. How will data and invoices be transmitted between (i) taxpayer and tax authority and (ii) supplier and buyer?

6. What data security protocols will be applied to minimise risk of data breaches?

7. Will the implementation be phased or will all taxpayers/supplies be in scope at once?

8. What validations is it appropriate for the system to undertake and what will the technical responses be?

9. How closely will the system be related to pre-existing regimes around Europe and wider? Do the plans complement ViDA or is there any conflict?

10. Are there any duplicative data-sharing regimes that should be deprecated alongside the introduction of the einvoicing regime?

3. If your business is currently subject to a VAT reporting programme in another EU or non-EU country, can you please share best practice, recommendations or lessons learnt?

We are subject to real-time reporting regimes in Spain, Hungary and Greece. Our recommendation based on experience with these regimes is that they are less efficient than e-invoicing and likely to be superseded by e-invoicing. Inefficiency comes as real-time reporting creates a new compliance process without introducing any opportunities for automation (as e-invoicing does). Invoices must still be processed in the traditional manners, with errors occurring at a low but predictable rate (>1%). This then necessitates reconciliation of immaterial or irrelevant differences in how (and when) each transaction party has recorded a transaction. This has caused significant additional work for taxpayers

in Spain, who have seen a huge increase in tax authority enquiries due to mismatches since the introduction of the Immediate Supply of Information System for VAT data reporting ("Suministro Inmediato de Información" or "SII"). Real-time reporting has only become a trend in Europe due to the need for a derogation from the European Commission being required for implementing an e-invoicing mandate. However, as e-invoicing derogations have become an established trend, we have seen countries that originally pursued real-time reporting seeking to flip to einvoicing.

Spain and Greece have both applied for derogations (pending) and there are rumours that Hungary wishes to do the same. It therefore seems likely that any real-time reporting regime may eventually be replaced by an einvoicing mandate. We are of the opinion that it's therefore more efficient to move straight towards the anticipated end state – e-invoicing – with no intermediate step. All stakeholders otherwise risk investing in systems and processes that only endure for a few years before being superseded by e-invoicing.

§B: E-Invoicing

Several EU countries are moving towards an obligatory e-invoicing business model. The Commission's current proposals will make it mandatory to issue an e-Invoice for intra-Community B2B transactions. The development of domestic einvoicing here supports the digital transformation across the economy and fits well with the ambition of the Government's "The Digital Ireland Framework".

4.Have you any observations, concerns or recommendations on a move to mandatory electronic invoicing for B2B & B2G domestic VAT transactions?

We are subject to e-invoicing regimes in many jurisdictions worldwide, including, Italy, Mexico, Brazil, Saudi Arabia and India, with implementations ongoing in France, Poland and Romania.

Based on this experience, we recommend the following best practices:

An appropriate lead-time should be provided for readiness for e-invoicing implementations, i.e., a minimum for 12-18 months from the date of the release of the technical and legislative guidance. This lead-time should also include a period of testing (e.g., 3-6 months) before the mandatory date of compliance (within a sandbox system/environment that mirrors the production or live system) to ensure that systems and processes are working efficiently in line with businesses' usual commercial activities.

It is important that the rules regulating the new system are published along with specific guidelines in order to ensure that there is no ambiguity regarding practical application of the new legislation. Taxpayers should be able to request clarifications throughout the implementation process and the government should also provide access to a technological support team that would help them to navigate through any issues that arises. Additionally, the government should be prepared to provide sufficient supporting documentation to allow taxpayers to implement and comply with any e-Invoicing regime, as follows:

- E-invoice format/ schema, including indication of mandatory and optional fields;
- Digital Signature technology details;
- Clarification on whether printed/pdf version of the e-invoice is required in addition to the e-file
- List of validation rules that each submission will go through; and
- List with all the different error messages that could be provided in case of e-invoice rejection and actions required to mitigate or resolve those errors. For example, a best practice we have observed in France is providing a use case matrix setting out how different permutations of invoice issuance should be treated (see here (includes English-language version): https://www.impots.gouv.fr/specifications-externes-b2b).

Ideally, legislation, guidance and technical design documentation will be released in a final, workable form as soon as possible. We appreciate that small changes and updates may be required to these documents to provide clarity.

However, any major changes in plans should be avoided, particularly in the final 12 months of the lead up to implementation, as this is highly disruptive to the required systems build roadmap.

At an early stage in the implementation process, we recommend that a clear roadmap is provided by the tax authorities with each phase planned for the e-invoice launch and any future updates/evolutions of the system clearly laid out. Based on this roadmap, companies can plan ahead and organize internally, guaranteeing a timely implementation of the new rules and meaning that initial systems design can anticipate future requirements.

Businesses should be given the opportunity to be involved and feedback throughout the implementation process.

This includes being included in pilot groups, which allows for 'live' contributions/feedback to shape the ultimate design. Feedback and question mechanisms should be available both before and after go-live (as some issues may not become apparent until after launch, in spite of testing).

The implementation of e-invoicing should lead to the phasing out of existing statistical reporting or periodic transactional declarations to the extent possible to help reduce the compliance burden and duplicative reporting for taxpayers.

We welcome that Revenue is considering a broad application of e-invoicing irrespective of the industry, size of taxpayer, type of taxpayer and the value of supplies. This aligns with our view that

phasing an e-invoice implementation may not be the best approach as it triggers complexity and confusion. In our experience, when a launch was done in phases:

(1) it was not always clear to suppliers which wave would apply to them;
(2) for businesses with multiple legal entities, it potentially means several different timings for each of the members of the group, and co-ordinating these changes across businesses interdependent development roadmaps;
(3) for customers, it was not easy to know which supplier is in scope and thus is supposed to issue e-invoices and which one is still allowed to issue paper invoices which created extra complexity and delays in invoice booking and VAT recovery;
(4) if not all businesses will need to accept e-invoices from the first phase, this requires businesses in early phases to run dual invoicing systems, with some invoices being issued by traditional means and others electronically, which creates significant complications in AR processes.

We also recommend a 3-6 month period of lenience following go-live – a so-called soft-landing period. This should allow authorities discretion not to levy penalties for errors in reporting or non-reporting of invoices. This helps taxpayers who have technical or commercial difficulties to achieve compliance where they have made good-faith efforts to comply.

If the government system is in the critical path for invoice issuance – e.g., in a centralised e-invoice clearance system – then businesses need a defined fallback mechanism for issuing invoices in the event of system downtime.

Tax authorities should also consider how use cases like credit/debit notes, self-bills, outsourced billing etc. will work under the regime and provide clear guidance/ensure such use cases are supported under the new system.

There is an ongoing debate whether e-invoicing systems should be centralised (with all invoices passing through the government portal) or decentralised (with invoices sent peer-to-peer) and invoice data only reported to the portal. In our view, flexibility is the best answer here. Businesses should be given a choice – send invoices directly via the government portal or comply with the additional requirements (e.g., using a certified service provider) to use the decentralised invoicing route.

5. Revenue is particularly interested in hearing views from businesses that are already engaged in eInvoicing Public Bodies within Ireland or engaged in B2B eInvoicing throughout Europe and beyond. How did you prepare and what challenges prevailed in your preparations for eInvoicing?

Based on our experience implementing B2B e-invoicing worldwide, a business will need to go through the following key steps to prepare and ensure readiness for "launch":

- Analyse the proposed legislation: Businesses will need time to digest the draft legislation and any consultation papers issued. Internal stakeholder feedback will be sought and subsequently shared with the respective Tax authority. Businesses may also engage with advisors and/or other trade associations to understand the requirements and give feedback. Following enactment, businesses will then re-review enacted legislation (including regulations, technical documents, guidelines and FAQs). Businesses will need time to digest the legislative framework and eventually engage with consultants to understand and interpret it. Throughout the implementation processes, businesses may be confronted with specific business and systems circumstances which are not well defined in the legislation on which they will need to reach out to authorities for clarification.

- Determine the scope of the e-Invoicing implementation for the business: Identify the departments, suppliers, customers, and types of transactions that will be covered by e-Invoicing.

- Analyse the current invoicing process: Document the current invoicing process, including manual and electronic steps. Businesses may have already implemented e-Invoicing on a voluntary mode,

which may be adjusted or discontinued with consequences on other processes (invoice booking for example), which need to be tackled prior to testing. Depending on their internal organization, organizations may work with multiple ERP systems across their business units, e.g., as a result of merger & acquisitions. Thus, this work will be multiplied by the number of ERP systems used by the business.

• Assess the readiness of the organization: Determine the technical and operational capabilities to implement e-Invoicing.

• Make budget available: Implementation of e-Invoicing comes with a significant cost for business. Businesses need to run an in-depth analysis of the costs associated with the implementation of e-invoicing, both the setup cost and ongoing running and maintenance cost. Annual budget plans may be impacted and extra steps might be needed to secure the funding of the project. For many businesses, budgets are set at least one year in advance and locked for a 12-month period. Therefore, last minute requirement changes or rules that impact on cost will require out-of-cycle budget requests, which may take a number of weeks to agree.

• Develop a project plan: Develop a project plan ("CPS" - Critical Path Schedule) that outlines the implementation steps, timelines, roles, and responsibilities.

• Assign a project team: Assign a team to manage the e-invoicing implementation, including representatives from IT, finance, order/billing, inter-business transactions and procurement. Businesses are confronted with many changes in their ERP systems due to internal business developments as well as external legislative developments. On the latter, in many countries, the implementation of e-invoicing and/or real-time reporting, comes at the same time as other legislative changes, which also require involvement of IT people and other resources. IT teams have limited capacity and any new project will need to find its way through the project "queue". As a compliance requirement the implementation of DCTR will take priority which, might come at the expense of growth building activities (new product launch, systems supporting new business models or entries into new markets or development of tools to generate efficiencies. Having clear visibility on what is coming well in advance is critical to allow proper planning, prioritization, sequencing and staffing of various projects. Any recruitment of additional resources will take at least 6 months given the scarcity of specialists in this rather new area. Moreover, given the broad impact of DCTR projects, these new recruits will need several months of onboarding into the business system and processes before they can actually contribute.

• Choose an e-Invoicing service provider: E-invoicing (and real time reporting), requires in many instances the involvement of one or more 3rd party e-invoicing service providers (for invoice issuance, invoice receipt, invoice archiving). Generally, businesses will mandate a very structured bidding process which generally takes 3 months as a minimum. This includes sourcing of the potential service providers, understanding their approach to e-invoicing, the strength of their tools, their connectivity with other systems of the company, the security of data, the cost and speed of implementation, the on-going costs and their agility on an everchanging landscape and many other parameters. Of note, in some countries, e-invoicing service providers also need to go through a long procedure to get a certification by the (tax) authorities, even though this is not best practice. Businesses may only be able to select a service provider once the certification process is finished.

• Configure the e-Invoicing solution itself (for any test/pilot and for the go-live): Business must configure the e-invoicing solution to meet the needs of their organization. This requires several steps:
Step 1 (approx. 2 months): Matching and mapping of all business scenarios in scope.
Step 2 (approx. 2 months): Develop & construct. This includes defining data requirements, including mandatory and optional data fields.
Step 3 (approx. 1 month): System Integration Testing (SIT) a high-level testing in test environments

to ensure that the e-Invoicing solution functions as expected and meets the legal requirements.
Step 4 (approx. 2 months): User Acceptance Testing (UAT) and defect resolution. This is an in-depth test that simulates what we expect the process and solution would go through in a production environment by the key users. This includes as well the non-negative impact test and stress test where required.
Step 5 (approx. 1 month): Move to production environment and production cut over planning

• Reengineer invoice receipt, controls and booking process: Beyond the system itself to issue e-invoices, invoice receipt and integration into the accounting system will need to be adapted and, ideally, automated.
This is where the main benefit from businesses will come from.

• Communicate the implementation plan: Communicate the implementation plan to all stakeholders, including suppliers, customers, and internal departments.

• Gather any required data points from trading counterparties: Specific identifiers and other supplier/customer data points may be required for the correct routing and/or processing of e-invoices (e.g., SIRET/SIREN in France. Whilst this is not best practice, where such a requirement exists it takes time to gather all the required responses from counterparties (80-20 rule applies where gathering data from the last 20% of respondents takes 80% of the effort).

• Provide training: Provide training to employees, suppliers, and customers on how to use the e-Invoicing solution and on the process and changes needed in the context of e-invoicing implementation, which might impact local teams or service centres for the businesses having centralized some of their financial operations.

Common challenges faced during these steps are as follows:
Lack of lead time – Where limited lead time is provided after release of necessary legal and technical details, implementation processes can be compressed, leading to risk of errors or sub-optimal solutions (e.g., manual workarounds). In extreme cases, deadlines can even be missed, creating penalty risks or, even business continuity risks. Therein the major difference between e-invoicing and other tax reforms is apparent – failure to comply with e-invoicing is a huge threat to a business (e.g., as customers will not pay a non-e-invoice) and we therefore ask governments to do all they can to implement in a simple, measured and, ultimately, business-friendly manner.

Launch delays – A common theme at present is government delaying a launch a few months or weeks prior to the deadline. This creates a number of challenges: (1) loss of momentum on the project and a need to reorganise workloads at short notice; (2) loss of trust from tech teams that deadlines set are true (meaning some teams will now ask what the "real" deadline is during planning); and (3) reprioritization of other growth initiatives or business compliance implementations against the revised launch date, which may entail resource constraints or additional resource funding requests. Delays can usually be avoided by setting realistic timelines at the outset (based on practicalities rather than politics).

Unclear guidance/scope – Late release of or lacking guidance on the practical and technical aspects of issuing/receiving/reporting e-invoices.

Validation errors – High rates of rejection due to unclear or overzealous validations carried out on invoice data by tax authorities. These rejections can be avoided by publishing what validations will be applied, providing automated tools for checking certain information (e.g., VAT numbers) in advance with appropriate APIs to enable the use of these tools at scale and allowing flexibility in certain areas (e.g., some tolerance of rounding differences).

At present we are able to validate EU VAT numbers (using the VIES database) but are not able to validate local (domestic) VAT numbers in Ireland.

Late changing requirements – We sometimes see requirements being added at short notice (e.g., requirement to include a QR code on an invoice <2 months before launch), which creates similar problems to "lack of lead time").

No mechanism for questions or feedback – Questions or issues will inevitably arise during planning and implementation, and lack of a clear feedback mechanism is a common challenge when this happens.

Requirements to use hardware solutions to sign e-invoices – Cloud-based ERPs are becoming the predominant kind. However, some e-invoicing implementations have required the use of physical devices for signature of einvoices/ reports. Integrating such devices into a cloud-based finance system ranges from technically difficult to impossible, and therefore the use of hardware solutions should be avoided.

System constraints on file size, field length, system volume limits – We sometimes see that tax authority systems are no prepared for the top 1% in terms of invoice file size (which can be thousands of pages), individual invoice data fields (which sometimes have arbitrary limits set on them) or peak volumes of invoices sent. This can lead to rejections and delays.

6. What suggestions would you offer in Ireland's arrangements for a mandatory B2B and B2G eInvoicing programme?

See our comments above under questions 4 & 5. On top of these, we welcome Revenue's proposed alignment with the EU's VAT in the Digital Age Digital Reporting Rules, and urge Revenue to remain in step with EU plans in this regard to avoid disruptive duplicative work for Irish taxpayers (e.g., implementation of a domestic system, which then needs to be adapted to EU rules). We and other businesses will be happy to provide further feedback as Revenue's plans develop.

§C: Current VAT Reporting Formats

The existing approach to VAT reporting formats (e.g., VAT 3 return) will be redesigned as part of a real-time reporting system.

7. Revenue are cognisant that small businesses may have different perspectives and requirements to large businesses, so what information prompts would you find useful for businesses in completing the VAT return?

N/A