

## **Petition to the coalition agreement - nationwide introduction of an electronic reporting system for the creation, verification and forwarding of invoices**

### **1. Background: Different models for electronic reporting systems**

Several models are conceivable for an electronic reporting system, which have already been implemented in other countries or are to be introduced in the near future. Germany can benefit from this experience. We therefore consider it appropriate to analyze all internationally tested and discussed models and to work out their advantages and disadvantages. On this basis, it should be investigated, which of these models, or which combination of these models, is best suited to the tax and technological framework conditions and the structure of the German tax administration, so that a recommendation can be made for Germany on this basis. As IDSt, we are happy to support you with our international experience and our practical, tax and technological expertise.

The introduction of digital data reporting is currently being discussed at European level as part of the "VAT in the Digital Age" initiative. To this end, the EU Commission is drawing up a detailed study, the first section deals with the existing systems and future options for transactional reporting systems in the VAT area. It is essential that the considerations and results at the European level are incorporated into the considerations at the national level.

Without being able to make a conclusive assessment, particular reference should be made at this point to two types of models that have already been implemented or will be implemented in the near future in various member states of the European Union:

- central transmission models, e.g. the so-called "V model" (Italy since 2019) and
- decentralized transmission models, e.g. the so-called "Y model" (planned for France).

A central transmission model, such as the "V-model" in Italy, which provides for mandatory electronic invoice exchange with exclusive clearing and forwarding to the invoice recipient by the tax authorities, would not incorporate the existing structures of electronic invoice exchange. Rather, in this model, a new process would take the place of the established systems. In the case of a centralized transmission model, the tax authorities would also have to assume considerable responsibility for the continuous for the uninterrupted functioning ("24/7") of their system, since a commercial or civil invoicing outside its system would be excluded.

Decentralized models, such as the so-called "Y-model" planned in France, build on existing networks of EDI service operators and leave taxpayers the option of exchanging invoices on private platforms in addition to the public platform of the tax authorities. The basis for an input tax deduction is - as with the central models - the invoice verified by the tax authorities through the electronic reporting system, regardless of which invoice data the taxpayers otherwise exchange via their existing procedures. The advantage of such a model, which is redundant only at first glance, is that companies can continue to use their existing data exchange models (see 3-5 below) and would only need an additional module for tax purposes. Taxable without such systems, on the other hand, could connect directly to the future system of tax administration.

From the perspective of the tax authorities, the decisive factor in evaluating the models will be the ratio of the the relationship between the not inconsiderable implementation costs of an electronic reporting system to an increase in VAT revenue. The increase in VAT revenue depends on the degree of efficiency of the collection of value added tax has been up to now. For states that previously had a less efficient VAT collection system, the implementation costs will be more worthwhile and amortized more quickly than for countries that already have an effective and efficient taxation system. Furthermore, it is crucial that the tax authorities use the information obtained in a timely manner in order to effectively combat VAT fraud.

For taxpayers, on the other hand, who already face the highest implementation costs due to the number and variety of invoicing systems in use, that these costs are limited to the necessary minimum in the sense of proportionality. Some taxpayers in Germany have already reached a high level of digitization. For them, the introduction of an electronic reporting system brings fewer advantages.

The advantages are therefore seen primarily in the reduction of bureaucracy and the timely attainment of legal certainty for honest taxpayers by enabling the tax authorities to act quickly on the basis of the information obtained. A significant opportunity is that formal audit obligations of the taxpayers can be replaced by central audit mechanisms and that downstream audits (VAT tax audit, special VAT audit) can be carried out with a lower level of intervention. The electronic reporting system can also help to standardize existing reporting obligations (e.g., in the area of INTRASTAT).

In addition, taxpayers can benefit from the standardization of document management that goes hand in hand with the reporting system. However, this depends crucially that the billing methods that exist in practice can also be mapped in full via the the reporting system to be established, without the need for further intermediate steps or conversions.

In our view, this results in the following requirements for an electronic reporting system:

## **2. Comprehensive technical standardization**

Lack of technical standardization is the main cost driver for taxpayers. Different data structures and transmission paths, such as different fields, field contents, formats and interfaces, lead to increased effort.

In order to promote technical standardization, it would appear to be particularly sensible that Germany, when introducing the electronic reporting system at the invoice level, should orientate towards the CEN standard 16931 for electronic invoices as a basis for the registered fields and field contents (semantic model). In the course of the implementation of EU Directive 2014/55 in Germany, preparations have already been made for this with the introduction of X-Invoice and ZUGFeRD 2.0. Considering these established standards, would promote both European and national harmonization.

## **3. Consideration of the existing electronic invoice exchange**

The advantages of mandatory electronic invoice interchange are often seen in the fact that the companies would then have structured data on the incoming invoice side for improving their accounts payable processes. To support this assumption reports are used, according to which the electronic exchange of invoices mainly takes place in the form of unstructured PDF files. However, this only considers taxpayers for whom it has not yet been worthwhile from a business point of view to convert the exchange of invoices with their business partners to structured data records.

However, even without explicit legal requirements, some taxpayers have already switched have already converted the exchange of invoices with their business partners to structured data records. data records.

Since 2001, the European VAT system has provided that electronic invoices transmitted by electronic data interchange (EDI) are to be recognized for VAT purposes. Companies that expected an advantage from this, have been setting up corresponding systems for the exchange of electronic invoices by means of structured data sets for decades and have invested considerable resources in this area. An electronic reporting system should therefore take into account the systems of exchange of structured electronic invoice data that have been built up over the last decades and should try to preserve them to a large extent by ensuring the compatibility of the new reporting system with the existing procedures.

In this context, it should also be noted that in the course of implementing the EU Directive 2014/55, standards for the creation and transmission of electronic invoices have already been developed and implemented (in particular XRechnung & ZUGFeRD). In addition to the voluntary use in the private sector invoice exchange legal requirements at the federal and, in some cases, state level suppliers are already obliged to use these standards for the transmission of invoices to public-sector customers. Corresponding synergy effects with the envisaged electronic reporting system are obvious and should be investigated.

These systems for the exchange of structured electronic invoice data between the companies and the public sector should be maintained.

## **4. Failure safety**

Electronic reporting systems must also be fail-safe. This requirement is particularly critical evaluated in the case of centralized transmission systems such as the one in Italy: For the expected occurrence of technical problems with invoicing via the system, a comprehensive service must be established in order to be able to resolve the problems within minutes, maximum one hour.

Otherwise, there would quickly be unnecessary transaction costs disruptions to operations and even liquidity problems for the companies. In the event of a failure, however, the decentralized models can at least partially access data from the non-failed networks. This makes them much more flexible and fail-safe.

## 5. Ensuring data security

Invoices contain data that is highly sensitive under competition law and is protected separately, for example

- Information on the taxable person and the acquirer, § 14 para. 4 no. 1 UStG,
- the quantity and type of goods supplied or the scope and type of services rendered, § 14 (4) No. 5 UStG,
- the price per unit excluding VAT and any price reduction or refund, unless they are included in the price per unit, § 14 (4) No. 7 UStG.

If such data falls into the hands of unauthorized persons, not only considerable damage could arise for the concerned taxpayers and acquirers. Even more, data leaks can lead to distortions and restrictions of competition in the internal market if third parties use the obtained data to the detriment of European taxpayers.

Data security can be ensured by the fact that the data is transmitted exclusively encrypted and the tax authorities only compare the encrypted values.

Alternatively, data security can at least be improved by storing the data from the transactional reporting obligations in a decentralized manner so that successful attacks on this data only jeopardize part of the data.

From the point of view of data security through data minimization, a decentralized transmission model is superior to a centralized transmission model:

- in the case of a decentralized transmission model such as the Y-model, only the VAT-related invoice components (Art. 226, 226a VAT Directive or §§ 14, 14a UStG) have to be transmitted to the tax authorities,
- a centralized transmission model, on the other hand, requires the transmission of all data, which the parties to the invoice exchange require, also to the tax authorities, as there is no other way to transmit non-VAT invoice data (such as bank details or contract data).

## 6. Expandability and scalability (e.g. EU-wide harmonization)

Ideally, electronic reporting systems should be able to be expanded incrementally and be scalable. This is more likely the case with decentralized transmission systems, since existing infrastructures can be used. In this way, it would be possible to achieve the Commission's goal of integrating the exchange of invoices for cross-border supplies and services in the EU into a corresponding reporting system without having to set up two parallel reporting systems.

## 7. Other aspects

With the introduction of the reporting system, the tax authorities have direct access to a large part of the information required for the assessment and collection of sales tax. Taxpayers and tax authorities alike could benefit from this increase in efficiency, for example through the prompt performance of downstream audit activities and their lower level of intervention. In order to give the tax authorities an incentive for a timely examination of the data transmitted, it would seem useful to set the period for assessing VAT, as a general excise tax, as for special excise taxes (one year). Invoice transmission in the electronic reporting system then constitutes an element of the tax authorities recognized component of the tax compliance management system for the respective companies. This provides (also in the case of any errors without intent/frivolity) additional security for the companies in complying with (tax) legal regulations within the framework of tax declarations.

Finally, the envisaged electronic reporting system must continue to enable the VAT credit memo procedure.