

The Global Tax Puzzle:

# Navigating the Ins and Outs of VAT Compliance on a Global Scale

# Introduction

According to [International Monetary Fund \(IMF\)](#) estimates, VAT generates approximately 30% of global tax revenue. Value-added tax (VAT) is a broad consumption tax assessed on the value added to goods and services as they move through the supply chain. Consumers pay value-added tax. VAT is not a charge on businesses, though sellers are responsible for collecting and remitting it. VAT is assessed in over 170 countries within the [Organisation for Economic Co-operation and Development \(OECD\)](#), and all 38 OECD member countries require VAT except for the United States. Global [standard VAT rates range widely](#) from 5% to 28% and vary per country and commodity. The complexity of global VAT compliance is rising. As a crucial source of country revenue, it is continually challenged by an expanding array of regulations.

In Europe, VAT applies to all goods and services sold in the European Union (EU). Like other EU directives, each member state transposes the law into its legal framework. [EU law](#) requires a minimum rate of 15% and a reduced rate of 5% for certain goods and services classified as essential. Consequently, [VAT rates for most goods and services vary widely](#) from 16% in Luxembourg to 27% in Hungary.

Adhering to European VAT regulations poses an ongoing challenge for multinational corporations, even more pronounced for organizations operating across continents. “Jurisdictions have different requirements, and there’s a lot of opportunity for inaccuracy when companies are recording transactions and reporting to the jurisdictions,” says Jason Oberacker, a product marketing manager with Vertex. “Many people and processes are involved, and the work is labor intensive and error-prone.”

Consequently, when errors happen, there’s always the threat of regulatory scrutiny.

**“If a company isn’t doing things correctly, they’re open to audit risk and penalties. This can lead authorities to request historical data from prior reporting periods and dig for more problems.”**

**Jason Oberacker** | Product Marketing Manager, Vertex

## VAT and the Digital Age

While compliance obligations for multinationals vary depending on the markets they serve and where they conduct business, governments worldwide continue strengthening their VAT regimes and leveraging technology to collect timely tax revenue.

For example, the EU recently introduced [VAT in the Digital Age \(ViDA\)](#) to “modernize” the VAT system, streamline the process, and improve collection rates. The ViDA proposal will require real-time digital reporting, implement updated VAT rules for the digital economy, and provide a single VAT registration for businesses that sell to EU consumers.

At the outset, ViDA had a phased timeline, commencing on January 1, 2024, with the introduction of a new e-invoice definition, and the concluding phases were set for 2028. However, a recent vote has led to the postponement of all three pillars of ViDA.





**Ultimately, the shift toward digital platforms enables tax authorities to mandate real-time reporting, simplifying revenue forecasting and facilitating thorough examination of potential payments.**

“There appears to be a connection between the expansion of digitalized business transactions and the adoption of digital reporting legislation by tax jurisdictions,” says Oberacker. “Digitized business processes help jurisdictions streamline the enforcement and collection of taxes,” he says.

Returning to the ViDA example, it’s uncertain how member states will interpret and adopt the proposal, but it does include a proposal to implement and conform e-invoicing across the EU. E-invoicing is a critical building block for real-time reporting, and government reluctance may impact uniformity.

Moving beyond ViDA, many countries worldwide are developing or have already adopted e-invoicing (real-time reporting) regimes. This trend will likely continue as governments report increased compliance and growing VAT revenue post-e-invoicing and real-time reporting adoption.

## An Overview of E-Invoicing

Given the adoption of e-invoicing as the vehicle to help governments improve their VAT collection efforts, what is an e-invoice, and how does it differ from a digital invoice?

An e-invoice is a structured electronic invoice that contains data from a supplier in a machine-readable format. This practice avoids manual coding and facilitates a seamless process to import the information into a buyer's accounts payable solution.

On the other hand, a digital invoice is a digital form of a paper-based invoice and typically includes visual data. While it allows for a more efficient approach to accepting and processing payments than paper, it still requires manual intervention, which includes entering the information into the buyer's accounting software.

Instead of traditional paper or PDF invoices, e-invoicing makes it simple to structure and exchange machine-readable data about a transaction, including VAT rates, amounts, and registration identities. The primary goal of e-invoicing is to standardize invoice data and ensure the seamless transfer of such data between regulators and businesses. In turn, e-invoicing provides the foundation for real-time reporting to tax authorities.



Under e-invoicing mandates, the following types of transactions typically fall within the scope:

**Business to Business (B2B) domestic transactions:**

These are transactions that occur between two businesses within the same country. E-invoicing mandates often require businesses to exchange structured invoice data for B2B transactions electronically.

**Business to Business (B2B) inter-company transactions:**

These are transactions that occur within a corporate group. Transfer pricing agreements impact these transactions, subjecting them to the same e-invoicing requirements as other B2B transactions. To date, this is required where domestic VAT groupings are not possible. In 2028, legislation is expected to address cross-border transactions and their subjectivity to e-invoicing.

**Business to Government (B2G) domestic transactions:**

These are transactions between businesses and government entities within the same country. E-invoicing mandates may require businesses to submit electronic invoices to government agencies for B2G transactions.



It's important to note that e-invoicing mandates generally do not cover business-to-consumer (B2C) transactions. B2C transactions involving sales to individual consumers are typically not subject to e-invoicing requirements.

However, there are currently invoice requirements for B2C regarding data required, format, and localization (language and currency).

There are currently two types of regimes for e-invoicing compliance reporting:

#### Post audit

The 'post-audit' approach translates requirements from paper-based invoicing to electronic flows, allowing the free exchange of invoices between trading partners but requiring them to prove the veracity of archived invoices for up to a decade later utilizing an accessible archive and periodic reporting. A 'post-audit' approach is currently more prevalent; however, many countries are beginning to move towards a real-time clearance model.

#### Clearance model

In countries that have chosen the 'clearance model,' the tax administration requires each invoice to be reported and authorized electronically by them before or during the exchange process. The seller must provide confirmation of an e-invoice's validity for tax purposes by supplying a token, QR code, or other unique reference as a precondition for the issuing (real-time clearance) or subsequent tax validity (deferred clearance) of that e-invoice or obligation. This step ensures that the seller has issued a valid e-invoice via the tax authorities' invoicing platform to the buyer (and received).

**These two systems have some common features, such as requirements for invoice integrity, authenticity, and archiving.** Still, many requirements are specific to each category and each country.

# How Businesses Benefit from E-Invoicing

While tax authorities benefit from e-invoicing by receiving standardized data, businesses can also benefit as it streamlines the tax compliance process.

Since e-invoicing relies on a digital backbone, businesses can receive updates to guide their compliance efforts in real time as regulations and requirements evolve. From an efficiency perspective, e-invoicing removes the need for physical documents or the manual input of data, lessening the administrative burden on companies related to VAT compliance.

Standardization makes it easier for businesses to automate the entire invoice process, remove inefficient manual processes, and increase the accuracy and integrity of the data they provide to authorities. Since data resides in an electronic format, e-invoicing solutions can apply validations to each field, ensuring the accuracy of the information.

And, just as importantly, e-invoicing facilitates quick and efficient communication between buyers and sellers. This capability reduces the time and effort to process an invoice, increases the likelihood of timely and accurate payments, and builds a more efficient and trusted relationship between the parties.



# Real-Time Reporting and the VAT Gap

Regarding taxation, there's often a significant delay between a taxable transaction, the collection of applicable taxes, and their remittance to a taxation authority. E-invoicing makes real-time reporting a reality, allowing tax authorities to enforce digital reporting requirements (DRR) and gain a more accurate view of the VAT revenues owed to their jurisdiction.

“Until it's time to submit periodic reporting, tax authorities don't receive granular, comprehensive data,” says Oberacker.

While reporting requirements vary by jurisdiction, requiring real-time or close to real-time can help tax authorities reduce the “VAT gap,” which is simply the difference between what a tax authority expects to generate in VAT revenues and the amount it receives.

According to the EU's 2023 VAT Gap report, the VAT gap was approximately €61 billion, down from €99 billion in 2020. The EU attributes the VAT gap to fraud, evasion and avoidance, non-fraudulent bankruptcies, and mismanagement. Real-time reporting will also help governments improve the accuracy and integrity of economic analysis and forecasts.



## Streamlining VAT Compliance with Technology Solutions

Faced with an increasingly complex regulatory environment, e-invoicing becoming the norm, and with onerous digital reporting requirements, multinationals must look for innovative ways to streamline their tax compliance efforts and ensure compliance.

Data quality and accuracy are essential for e-invoicing and VAT compliance. A business must have the ability to get tax accurately determined and calculated, validate and show proof of tax ID registrations, and be able to extract complete and accurate transaction data and related artifacts for managing continuous transaction controls (CTC) and digital reporting requirements (DRR) including real-time reporting and e-invoicing, as well as periodic aggregate reporting.

The push by tax authorities to digitize the tax reporting and collection process can provide a welcome opportunity for multinationals to revisit the effectiveness of their tax compliance efforts and how they integrate with the rest of the business.

At the heart of the changes under consideration with ViDA and with tax authorities is the need to embrace technology to deliver e-invoicing. “While e-invoicing isn’t mandated in many jurisdictions, it’s eventually going to be,” says Oberacker.





**Overall, the push toward an e-invoicing solution is driven by a few critical factors:**

- Increasing number of e-invoicing mandates
- Need for accurate tax determination and real-time reporting
- Demand for end-to-end VAT compliance
- Desire for operational efficiency and competitiveness
- Benefits of enhanced data access for tax professionals

Like any enterprise technology selection process, deploying an optimal e-invoicing solution takes time, internal alignment, and an in-depth understanding of current and future regulatory requirements.

An e-invoicing solution should integrate with existing financial systems and deliver streamlined processes to support the creation, submission, clearance, and archiving of e-invoices. Given the pace of change in the regulatory environment, a solution should receive continuous updates regarding VAT regulations and requirements in every market a company operates.

A scalable and streamlined e-invoicing solution will reduce costs, improve operational efficiency, and reduce the likelihood of fines and penalties for non-compliance. The solution should ensure each invoice complies with the format required by each jurisdiction by validating and flagging missing, incomplete, or inaccurate data.

“Each jurisdiction has different and evolving requirements, which makes it challenging for a business to keep up with. **An e-Invoicing solution should be supported by continually updated tax research that proactively stays ahead of legislation changes.**”

**Jason Oberacker** | Product Marketing Manager, Vertex

This provides businesses with reliable content and compliance guidance, and the ability to easily scale to new regions to expand their operations while complying with local tax requirements effectively.” says Oberacker.

An e-invoicing solution should be compatible with mandates put forward by country-specific tax authorities for business-to-government (B2G) and business-to-business (B2B) transactions. These mandates require either pre-clearance from tax authorities before an invoice can be distributed to the customer or the delivery of invoices following certain open standards, such as the Peppol International Model for Billing (PINT).

VAT compliance also requires maintaining robust e-invoicing archives for as long as each jurisdiction dictates, which can be up to 15 years or longer. An e-invoicing solution should store digital archives of all approved e-invoices and required supporting artifacts for audit readiness.

A single, global e-invoicing solution allows businesses to expand and grow geographically into new markets more easily and confidently while removing VAT compliance complexity, which can become a barrier and risk, and help avoid attracting regulatory scrutiny and penalties.

# Conclusion

Given the reliance on VAT revenue by governments around the globe and the push towards digitization, multinationals face growing pressure to reimagine their tax compliance efforts. Future initiatives, such as the recently proposed ViDA, will continue to change the compliance landscape in the EU and globally, and provide a roadmap for other governments to mandate e-invoicing, change their digital reporting requirements, and require real-time reporting.

While governments benefit from adopting e-invoicing requirements, so too can the business sector. A dedicated VAT compliance solution provides many direct and indirect benefits. At every stage of the process, technology can enhance continuous transaction controls and support digital reporting requirements.

Technology can also more sufficiently support the latest standards and regulations so that businesses can avoid costly and avoidable compliance errors. An automated cloud-based solution, with consolidated real-time and periodic reporting, helps ensure businesses can improve compliance processes and data quality to comply with statutory requirements more effectively.

While it's impossible to predict the future of VAT compliance around the globe, there are considerable incentives for businesses to adopt an automated, end-to-end e-invoicing solution. As indirect tax compliance grows more complex and tax authorities continue to embrace digitization, multinationals will soon be required to provide the real-time reporting and reconciliation that e-invoicing delivers.





## About Vertex

[Vertex, Inc.](#), is a leading global provider of indirect-tax solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added and payroll. Headquartered in North America, with offices in South America and Europe, Vertex employs over 1,300 professionals and serves companies across the globe.

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