SELF-BILLING IN EUROPE

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1. INTRODUCTION

"Self-billing" or "self-invoicing" is a business process that is becoming more and more commonplace as companies discover the overall benefits and countries recognise the legal validity of the process.

Self-billing is a process whereby a customer "invoices" or "self-bills" himself. When the customer knows what was ordered from a specific supplier, what prices were agreed and what was actually delivered, there is no real need for an invoice from that supplier before paying what is due.

Whereas an invoice is sent from a supplier to a customer, claiming payment for goods supplied, the act of "self-billing" can be looked upon as the customer invoicing on behalf of the supplier. This is a simple transaction to follow. However, the acts of self-crediting and self-debiting have proved to be less easily understood. A Credit Note is usually sent from a supplier to a customer to compensate the customer for an overpayment on invoice and a Debit Note is sent from a supplier to a customer to gain compensation for an under payment. For the purposes of this report the concept of, "on behalf of", is used also for these transactions and the term "conventional" is used to mean non-self billing. Therefore, when a customer has a debit towards a supplier, for whatever reason, in the conventional environment the supplier could issue a debit note. In the self-billing environment the customer could issue a self-billed debit note. Similarly, if the supplier needed to credit the customer, in the conventional case the supplier could issue a credit note to the customer. In the self-billing environment the customer could issue a self-billed credit note.

There are some very basic recommendations which need to be followed before self-billing can be implemented. Legal requirements vary from country to country. Some countries are very flexible and encourage self-billing. In other countries, self-billing is allowed with many limitations. Some countries do not allow self-billing, but do allow "pre-invoicing", where the customer informs the supplier about what the invoice should contain, and the supplier then prepares his invoice accordingly or only signs the print out of the customer and sends it back to him. In other countries still, self-billing is not allowed at all.

The first cases of self-billing in the automotive industry are found in the United States in the 1970s when some automotive manufacturers decided that they would no longer wait for supplier invoices before starting payment. In Europe, the first users of self-billing in the automotive industry were in Germany, Sweden and the U.K. and over the last few years, the use of this system has grown tremendously. Self-billing is now mostly used for production material, but it is beginning to be used for non-production material and freight service payment.

In 1996, ODETTE International set up a specific task force to study whether self-billing could be done at a European level and whether ODETTE should work towards developing an EDI standard for the exchange of information between supplier and customer, eliminating the current exchange of paper invoices. The task force used as a basis the experience of its members. It reviewed the current legal situation in the participating ODETTE countries as well as the business process associated with self-billing. In addition, the group identified the business requirements for the process and worked to commonise the information that would be needed in order to harmonise the transmission of paper and EDI messages. The findings of this task force are the basis of this report.

Readers should keep in mind that business processes are in constant evolution. The shift from ordinary invoicing to self-billing will be increasingly more evident as countries lift their legal requirements on local and cross-border self-billing. According to the recent ODETTE survey of European automotive manufacturers, self-billing is now the norm. The objective of this report and the ODETTE Task Force is to help ease the transition and provide guidance to companies evaluating whether to adopt the process. The report does not attempt to define the method of communication of the information. This can be by paper, EDI or other emerging technologies.

2. BENEFITS

One of the reasons that self-billing is growing so quickly is that it leads to benefits for both partners. Among the major benefits of self-billing are:

a) For the customer

- Elimination of receiving and processing supplier invoices. According to one consulting company, in an ideal system where 100 percent of the merchandise delivered is self-billed, the manufacturer's accounting staff could be reduced by 90 percent.

- Reduction of claims from suppliers. Claims of non-payment for deliveries that have been invoiced will drop. As the customer self-bills himself, he knows what deliveries need to be paid and payment will, in most cases, be initiated earlier.

- Reduction in defects in the overall process. In order for self-billing to work properly, it is extremely important for the customer to know precisely what has been delivered and consequently will have to ensure that the reception area works properly. Because of legal requirements, the customer makes sure that mistakes in his system are corrected so that information is processed as it should be. Since the supplier is paid according to what is stated on the despatch advice/delivery note, the supplier must ensure that the documents are correct.

b) For the supplier

- Advance knowledge of invoices to be paid. Often in cases of normal invoicing, the entire invoice is not paid due to an error for one article. In cases of self-billing, "invoices" are issued by the customer for what will be paid.

- Minimised payment delays. Basis for payment in self-billing is when the goods were received and not when the invoice was received. For some suppliers, this may lead to faster payments.

- Knowledge of problems. The supplier is notified of discrepancies and irregularities much earlier than in the normal invoicing process.

- Reduction of unpaid deliveries. If one article in a multi-article delivery cannot be paid for any reason (defects, missing prices, errors), the payment for the rest of the shipment will not be delayed.

- Reduction of time required to correct errors.

c) For both

- Reduced administration costs.
- Automated system for retrospective price adjustments.
- Faster resolution of payment disputes.
- Elimination of paperwork, especially with EDI.
- Synchronisation of price files.
- Improved trading relationship between supplier and customer.
- Better efficiency and effectiveness in the overall business cycle.

3. DISADVANTAGES

Unfortunately the adoption of self-billing may have some disadvantages and it is important for the partners to be aware of what they are:

a) FOR THE CUSTOMER

- Since order documents are no longer matched with invoices, there may be the risk of overpayment. In the conventional process a customer will match orders with invoices sent from the supplier and thus identify any overcharging.

- The customer has a responsibility to ensure that his procedures guarantee proper payment of suppliers.

b) FOR THE SUPPLIER

- Self-billing may not be used in all cases and consequently it may be necessary for the supplier to also use traditional invoicing with some customers, and, at times, to use both methods for the same customer.

- The supplier is responsible for ensuring that the customer has correctly self-billed the supplier's deliveries.

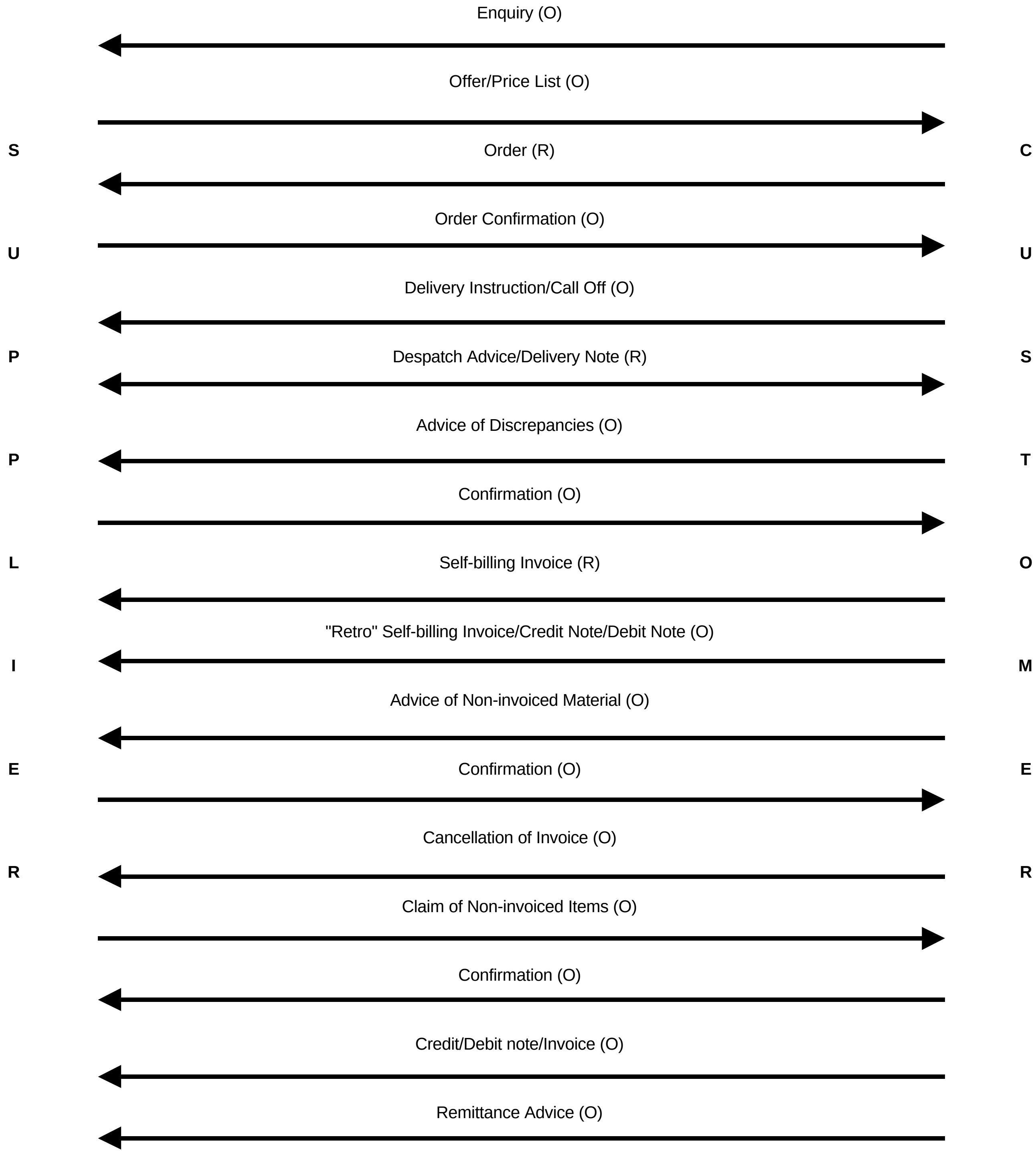
- The possibility of wrong VAT declarations. VAT is payable on delivery and if the self-billing process is delayed the return may be incorrect.

c) FOR BOTH

- Higher accuracy is required in purchase and sales ledgers.
- Errors and inaccuracies must be corrected.
- Investments will probably have to be made to correct these errors.

4. SELF-BILLING BUSINESS PROCESS

Before deciding whether to adopt self-billing or not, the overall business process needs to be looked at. The main documents (paper or electronic) which, according to ODETTE, are part of the business process, can be seen in the chart below:



“R“ = Required, “O“ = Optional (bilateral agreement or legal requirements)

In all cases where self-billing is used for production material in a push process, ODETTE recommends the use of the order and the despatch or delivery note. In a pull process a pick up sheet or a loading list may be used either instead of a despatch or delivery note. When self-billing is used for freight services the loading manifest may replace the Despatch or delivery note.

The business process identified by ODETTE starts with the *enquiry* which is used by the customer to request the supplier to give prices and other terms and conditions for the supply of goods and/or services. The enquiry is then followed by an *offer*, sent by the supplier, to inform the customer of prices and other terms and conditions as specified in the enquiry or otherwise initiated by the supplier. An offer may be accompanied by a *price list* that is used by the supplier to notify a customer of the prices of its goods/services.

The customer sends a *purchase order* to initiate a transaction with a supplier that involves the supply of goods and/or services previously specified in an offer or otherwise known to the supplier. The order can be used for two possible functions. One is a blanket order that informs the supplier of the intention to order over a specific or open-ended time period. Details about exactly what will be ordered on a given date will then be provided in a separate delivery instruction message. The other function covers a stand-alone order, which informs the supplier of definite requirements. All necessary quantities and times are contained in the document/message in such a case. In many cases the supplier sends a *confirmation of the order* to the customer.

If a blanket order is used, a *delivery instruction* is then sent by a customer to a supplier to provide short-term delivery instructions and/or to inform what the medium-to-long term requirements will be. A *call-off* may follow to give the short-term requirement.

When the goods leave the premises of the supplier, a *despatch advice or a delivery note* is sent by the supplier to advise the receiver of the delivery that the goods have been despatched, giving details about the shipment. For ODETTE, this document/message (or a pickup sheet or loading list) is **mandatory** in order to self-bill material or services if payment on receipt is agreed. If payment on consumption is agreed a reference to the purchase ledger is requested as a minimum.

The customer of the goods may send an advice of discrepancies to the supplier of a despatch advice after detailed checks for quantity and quality have been made, to inform the supplier of:

- discrepancies between the *despatch advice* and the goods actually received.
- incorrect data in the *despatch advice.*
- rejection of goods for quality reasons.

The supplier may send a *confirmation* of having received this advice and provide the correct information to the customer.

At this point, the customer can send the *self-billing invoice* to the supplier, to inform the supplier of the payment of goods supplied under conditions agreed between the customer and the supplier. In the case of price change that was not included in the original self-billed invoice, a *retrospective self-billed invoice* may be issued by the customer which gives the price difference. As an alternative to the retro self-billed invoice, a *self-billed credit note* or *debit note* *may* be issued. The self-billed credit note may be sent by the customer to the supplier to credit all or part of an unacceptable invoice or invoices. A self-billed debit note may be used to debit all or part of an unacceptable invoice or charge the supplier for goods that have been returned.

There are times, however, when part or all of a delivery cannot be self-billed. The reason may vary, e.g. prices have not been agreed, the supplier's VAT registration code is incorrect, there are invalid purchase order term or receiving errors. In this case, the supplier will be informed by the customer regarding what material cannot be self-billed with an *advice of non-invoiced material*. An additional optional step, if the supplier is able to provide the correct information, may be a *confirmation* sent to the customer either on an agreed paper form or, when available, in an EDI message with that information.

In some countries, in rare circumstances, a *cancellation* of a self-billed invoice may have to be sent from the customer to the supplier and a new self-billed invoice issued. How this situation will be dealt with should be agreed in advance with the supplier.

If the supplier finds that the self-billed invoice that he has received is incorrect, e.g. wrong quantities or wrong prices, or if articles have not been invoiced at all, he may send a *claim for non-invoiced material* to the customer. The customer will then verify whether the claim is acceptable or not and consequently issue a *self-billed invoice* , a *self-billed credit note* or a *self-billed debit note*. Depending on the agreement between partners and National legal requirements, the supplier may also issue a *credit* or a *debit note*, or an ordinary *invoice*.

A *remittance advice* may be sent from the customer to the supplier to provide information about which invoices, or self-billed invoices are being paid. This will normally be on the same date as payment is made. Otherwise a date of payment will be given.

5. PREREQUISITES

Prior to doing self-billing a certain number of steps need to be taken.

- First and foremost, the National legal/fiscal requirements need to be checked. In some countries where self-billing is allowed, a company may have to inform the VAT authorities that it will start using self-billing. In other countries, self-billing may only be done with certain companies, e.g. foreign companies. Both customer and supplier must carefully check the legal implications. VAT requirements must also be carefully checked, such as for goods in transit in some countries.

- Careful planning on behalf of both partners must be done. Partners must agree the information to be exchanged, and how to exchange it. And obviously, each side must do what it can to avoid mistakes being made. The customer must ensure that self-billed invoices will be issued on time with the correct information, The supplier must ensure that his despatch advice contains the correct information regarding the delivery. Both sides will have to make sure that in case of errors, the other side is informed accordingly.

- Both partners must recognise that investments in time and money will be needed to ensure a proper self-billing system.

- Both partners must have the correct information in their system. Prices should be agreed before the self-billed invoice is issued. The customer must have the correct information about the supplier (VAT code, legal address, article numbers, etc.) and the supplier must have the same information for the customer.

- The handling of errors and missing information as well as the timing of each step in the process must be carefully agreed between partners.

6. METHODOLOGY

The methodology to be used for self-billing will naturally vary from company to company, but a suggested process could be the following:

- Analysis of advantages/disadvantages for the company in using self-billing
- Verification of legal/fiscal status of self-billing and the data transmission in the company's own country and countries where suppliers are located
- Analysis of the in-house business process
- Analysis of the information which needs to be exchanged in the short term and in the long-term
- Analysis of suppliers to be involved
- Analysis of the investments to be committed
- Supplier involvement
- Define reporting and handling of discrepancies, price changes, etc…
- Analysis of the method of communication between partners - EDI, paper, etc.
- Obtain authorisation from National authorities
- Agree contracts/interchange agreement
- Set up trial period in parallel to ordinary invoicing
- Start self-billing

7. HANDLING OF SPECIAL TRANSACTIONS

Before beginning self-billing, it is very important to agree procedures between customers and suppliers. Among the procedures to be carefully considered, because they may be handled in many different ways, are the following:

a) DISCREPANCIES

Because of the legal and fiscal implications of self-billing, the reporting and handling of discrepancies and errors must be thoroughly agreed. Clear rules need to be defined for the following possible discrepancies:

- when the quantity received by a customer is less than what was quoted on the despatch advice or delivery note. The handling of the discrepancy will certainly vary depending on whether the discrepancy is discovered before the self-billed invoice is issued or after.

  ⇒ In some cases the invoice may be issued referring to the amount actually received.

  ⇒ In other cases, because of legal requirements, the invoice is issued with the amount quoted on the despatch advice and a self-billed debit note is issued for the difference. (Alternatively, the supplier may issue a conventional debit note, or the customer may issue a conventional credit note).

  ⇒ In other cases, a debit note is issued following the self-billed invoice, containing the same amount as the invoice, thus effectively cancelling it. A new self-billed invoice with the correct quantity is then issued.

- when the quantity received by a customer is greater than what was quoted on the despatch advice or delivery note.

  ⇒ In some cases the invoice may be issued referring to the amount actually received.

  ⇒ In other cases, because of legal requirements, the invoice is issued with the amount quoted on the despatch advice and a self-billed credit note is issued for the difference, or another self-billed invoice is issued.

- when items are stated on the despatch advice or delivery note, but are not received

  ⇒ If the difference is discovered before the self-billed invoice is issued, then in most cases the invoice is issued only with the items received. The supplier would, or may be informed by the customer, in a separate document or EDI message, that there were items on the delivery note which were not received and consequently not invoiced.

  ⇒ If the difference is discovered after the self-billed invoice is issued, in most cases a self-billed credit note for the entire amount for the items not received is issued by the customer. (Alternatively the supplier may issue a conventional credit note or the customer may issue a conventional debit note).

- when an item is received but it is not stated on the despatch advice or delivery note.

  ⇒ If the discrepancy is discovered before the invoice for the items on the despatch advice is issued, the items will be included in the invoice if the customer decides to accept it. If the customer decides not to keep the additional item, the item is returned and is not mentioned in the invoice.

⇒ If the discrepancy is discovered after the self-billed invoice is issued, and the customer decides to keep the item, in most cases the item will be included in the next self-billed invoice, or included in a self-billed debit note.

b) ***<u>PRICE CHANGES</u>***

If there is a retrospective price change, i.e. prices have been adjusted for items that have already been self-billed, an agreement must be made with partners on how to handle this information. Care should be exercised to ensure that National tax regulations are complied with.

- Will another self-billed invoice be issued or will a self-billed credit note or a conventional debit note be issued for the amount if it is greater than the amount stated on the original self-billed invoice?
- Will a self-billed debit note or a conventional credit note be issued if the difference is less than what was originally stated on the invoice?
- Will only the difference and the new current price be given or will both the old and new price be given and the supplier will have to calculate the difference?

  (ODETTE recommends that in any case, both the new price and the old price should always be given).

c) ***<u>RECEIPTS UNABLE TO BE PROCESSED</u>***

When items are stated on the despatch advice or delivery note and are received but cannot be priced due to incomplete price data, the customer will send the supplier an advice of non-invoiced material due to a different reasons e.g. missed price, wrong part number or unknown plant, etc… This can be created at the same frequency and the same transmission as the self-billed invoices.

The receipts unable to be processed should be listed, providing the required information is missing and evaluated as soon as the problem is resolved.

8. REQUIREMENTS

a) LEGAL

Legal requirements for self-billing vary extensively from country to country. So far, unfortunately, there are no European laws regarding this issue and it is left up to the individual country to decide whether to allow self-billing or not. Examples of different country attitudes are:

- Where self-billing has been used for many years
- Where paperless invoicing and self invoicing is allowed
- Where paperless invoicing and self invoicing is only allowed with supplementary paper information sent to the customer by the supplier or sent to the supplier by the customer
- Where self invoicing is only allowed in the name and to the account of the supplier
- Where the self invoice is a genuine debit note of the customer
- Where pre-invoicing is used instead of self-billing
- Where self-billing is not allowed at all

However, the requirement for paper and the necessity to sign the invoice or self-billed invoice or the supplementary paper, may change.

There are two initiatives of the European Commission to harmonise VAT law for invoicing

- The SLIM initiative (simpler legislation for the internal market, Directorate-General XXI) points out in its VAT Report that "harmonisation of the particulars given on invoices is necessary in order to make it easier to draw up invoices in respect of transactions between Member States; however, the particulars required must not go beyond what is strictly necessary for VAT purposes. The members of the team are in favour of the use of new technologies as long as they offer the same guaranties and security as traditional media.
- The draft: "Electronic commerce and indirect taxation "for the council of ministers and the European Parliament points out that for electronic commerce it is technically not possible to send an invoice on paper. Therefore electronic invoices should be allowed and suitable tax control instruments and preventive measures against abuse should be made. The principles for paperless invoices should become common legal rules

Before deciding whether to adopt self-billing, a company must check not only whether self-billing is allowed, but what the legal and fiscal requirements are of the country where the company is located. If the company supplies to/receives from companies abroad, then the requirements in both countries must always be considered.

Among the legal requirements to be checked are:

- Is self-billing allowed?
- Is cross-border self-billing allowed?
- Who is legally responsible for the contents of the self-billed invoice?
- What happens if an invoice is incorrect or if a self-billed invoice is not issued for a delivery?
- What information must be provided to the local authorities?
- What kind of agreement must be made between partners (e. g, an interchange agreement, a contract - written or EDI, etc.) before doing self-billing?
- What information must the self-billed invoice contain?
- What is the timing for issuing a self-billed invoice and for correcting it in case of errors? (e.g. a self-billed invoice must be issued within 30 days of the delivery)
- What documents/messages must be exchanged in order for the self-billing process to be valid?
- What details of material movements have to be kept? What accounts have to be logged?
- Can EDI be used for self-billed invoices?
- Are there any requirements when there is a third party involved (e.g. a distribution centre)?

b)FISCAL

Besides the legal implications, companies must also be fully aware of the fiscal implications. For example, in some countries where self-billing is allowed, companies need to inform the VAT authorities that they will be doing self-billing and with whom. In other countries, self-billing may only be done with certain companies, e.g. foreign companies. Companies must check with their experts, but among the issues to be considered are:

- Who is responsible for declaring the VAT of a self-billed invoice?
- What are the VAT rules for goods in transit?
- What date is used for the VAT declaration for self-billed invoices - the despatch date or the date of goods receipt?
- What must be done if there is an error regarding the VAT on a self-billed invoice?
- What currency must be used for the VAT on the self-billed invoice (e.g. purchase order currency, National currency, invoice currency, supplier preferred currency? When using Euro as invoice currency local currency then must be indicated, "only for information")

c) *EXTERNAL AUDITING*

Besides the legal and fiscal implications, companies must be aware that the Self-Billing business process is part of the accounting process and therefore must be fitted to be successful certified by auditors and tax accountants.

The following items can possibly be checked:

- if there is a closed cycle numbering of self invoices, debit notes , credit notes…
- if there is an identity of items and totals.
- if there is proof of origin and receipt of the self bills etc.

It is necessary that the receipts can be checked against the liabilities. If EDI is used, an appropriate documented Transmission Control of the computer system will be required. In some countries the tax auditors are already allowed to use check programs to ensure there is a feasible interface to operate the programs.

9. FUTURE

a) USE OF SELF-BILLING

The use of self-billing is growing very quickly, not only in the automotive industry but in other areas as well. Its use is being extended from replacing ordinary invoicing for production material to replacing all invoicing, including non-production material as well as services.

It is expected that the use of EDI for self-billing will also increase rapidly. The use of EDI is highly recommended for the self-billing business process, not only for the self-billed invoice, but for the whole process itself to ensure the accuracy and integration of the data.

As more companies move to self-billing, more and more investments will be made to ensure that the information and the goods exchanged between partners are what have been previously agreed. Self-billing, done properly, leads to savings for both partners. It encourages better partnership and trust between customer and supplier.

However, as long as the self-billing is governed by strict legal requirements in some countries and not allowed at all in others, companies will not be able to gain the possible benefits. Some supplier companies may even be prevented from being competitive because they are not allowed to do self-billing.

b) RE-ENGINEERING

Self-billing as the last step of the supply chain in monetary terms is very much dependent on the structure of the logistic process

Recent global industrial re-engineering initiatives may have direct impact on the delivery and thereby payment documentation.

The self billing process as defined above has been designed to cover these business requirements as long as the quality of data is unchanged.

If quantities, process data of supplier and customer and National legally required data can be reconciled by business partners and controlled by authorised auditors' historical papers (delivery documents) may be unnecessary.

c) POSSIBILITIES TO OVERCOME RESTRICTIVE REQUIREMENTS

ODETTE will continue to work both at national and international level to encourage authorities to develop laws allowing national and cross-border self-billing and to limit the restrictions so that all companies in the automotive area may be as competitive as possible.

One, and this possibly may the most essential condition that self-billing, especially if paperless self-billing is to be allowed in future by the national and the EC authorities, is the **control system.** Tax auditors must have even easier facilities than they have today to control self-billing as a part of the accounting process and if EDI is used must have access to the original data and the process documentation. Furthermore, tax authorities should have the possibility to reduce the auditing costs if EDI is used.

10. APPENDICES: Legal status in ODETTE Countries

The following pages show the current status of the law regarding self-billing in ODETTE countries.

a) <u>Czech Republic</u>

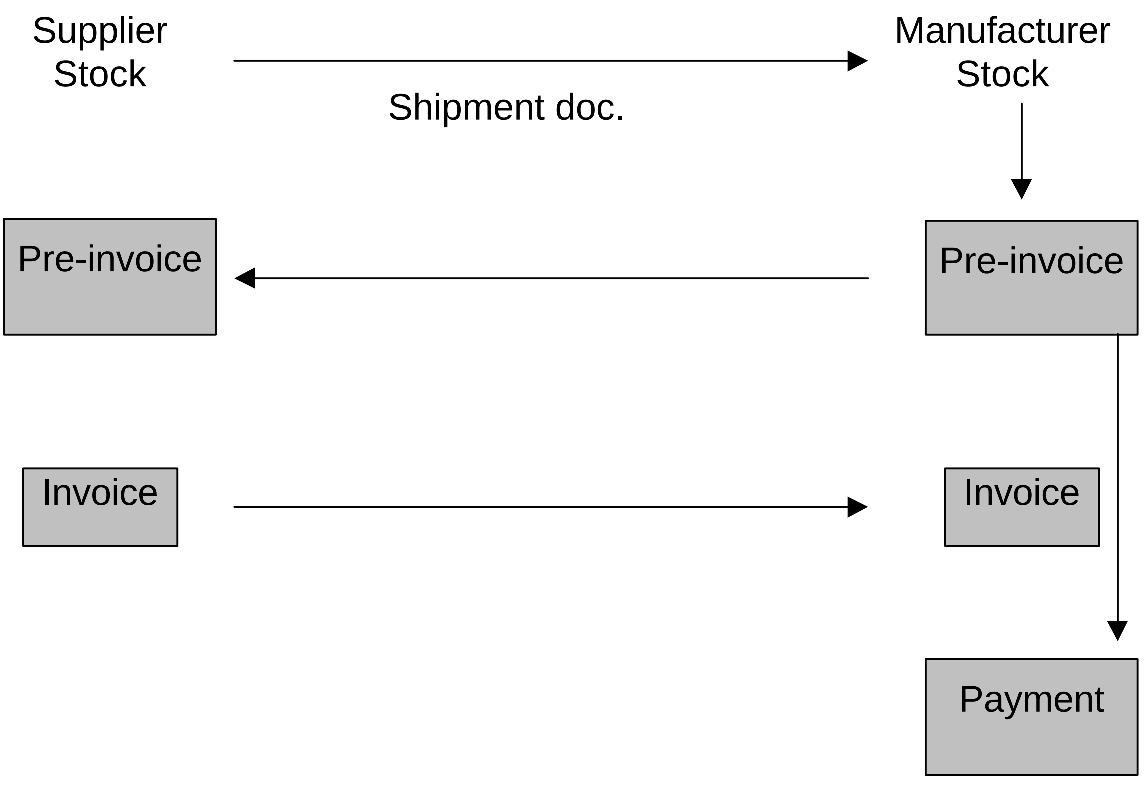
Currently invoicing using EDI is not allowed for national or international trade. Invoicing may only be done with paper.

Self-billing is also not allowed.

b) ***<u>FRANCE</u>***

Self-billing is currently not allowed in France since it goes against the philosophy of the DGI (Direction Générale des Impots) regarding efficient VAT legislation. The DGI believes that since it is possible for companies issuing the self-billed invoice to claim the VAT reduction without the VAT being paid by the supplier, there are too many risks in allowing self-billing.

In addition to the explicitly prescribed paper invoice for the supplier, to be sent as an original to the customer as the basis for the VAT declaration, a pre-invoice for the supplier can be established by the customer and transmitted via EDI.



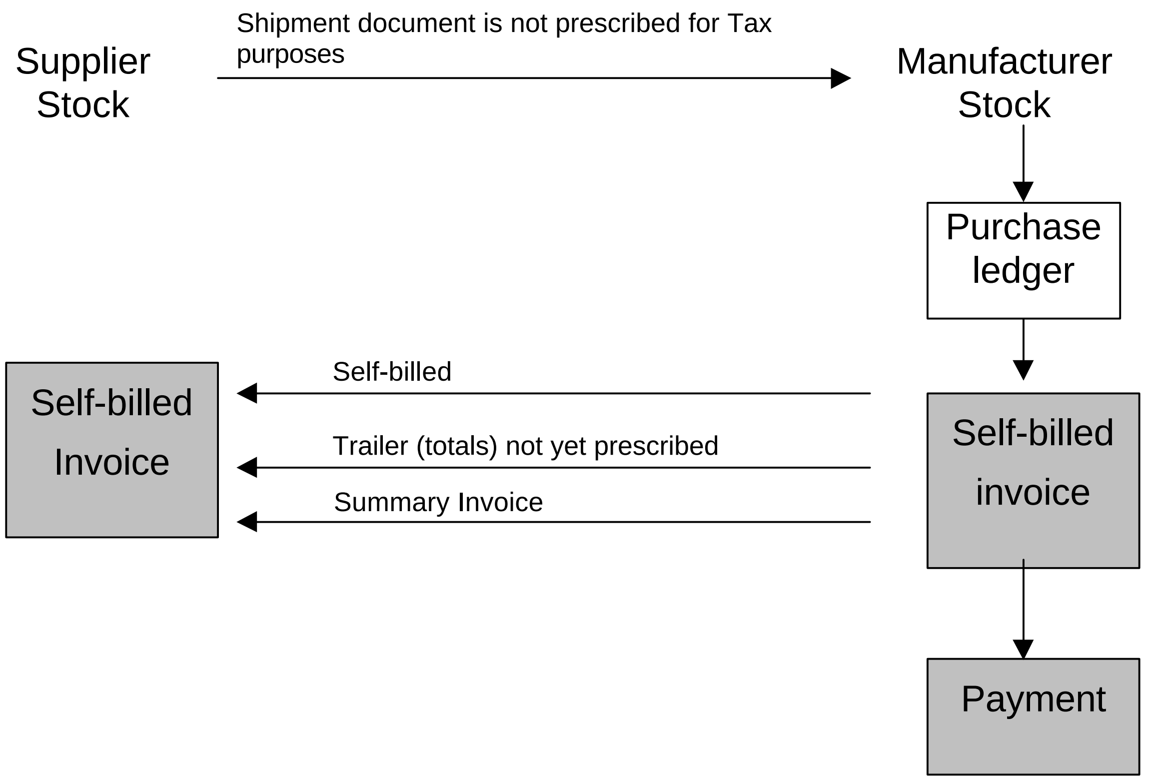
c) GERMANY

The use of self-billing was authorised in 1987 (enlarged 1992) and is now extensively used within Germany and with external suppliers. A Self-Bill in Germany is legally a genuine Debit note and not an invoice in the name and the account of the supplier.

The requirement for paper for self-billed invoices or ordinary invoices is prescribed in the German Tax Code. But there is now no need for any signature.

EDI or any other readable medium is allowed instead of the Paper Invoice or Self-Bill if a Data print-out or a Summary Invoice (Sammelrechnung) on paper is sent to the supplier/customer for tax purposes periodically (minimum one month)..All compensation amounts and corresponding VAT amounts can be identified in that Summary Invoice on paper only as one sum total, but references have to be given to the stored data for each individual self-billed invoice transmitted during that period.

At the moment it is being discussed whether to replace the necessity to send a data print-out or a Summary Invoice paper by transmitting a Trailer (with totals for each data transmission) giving the tax authorities the right to check the data with their own check programs and defining a minimum of checkable requirements for the data transmission process.



d) ITALY

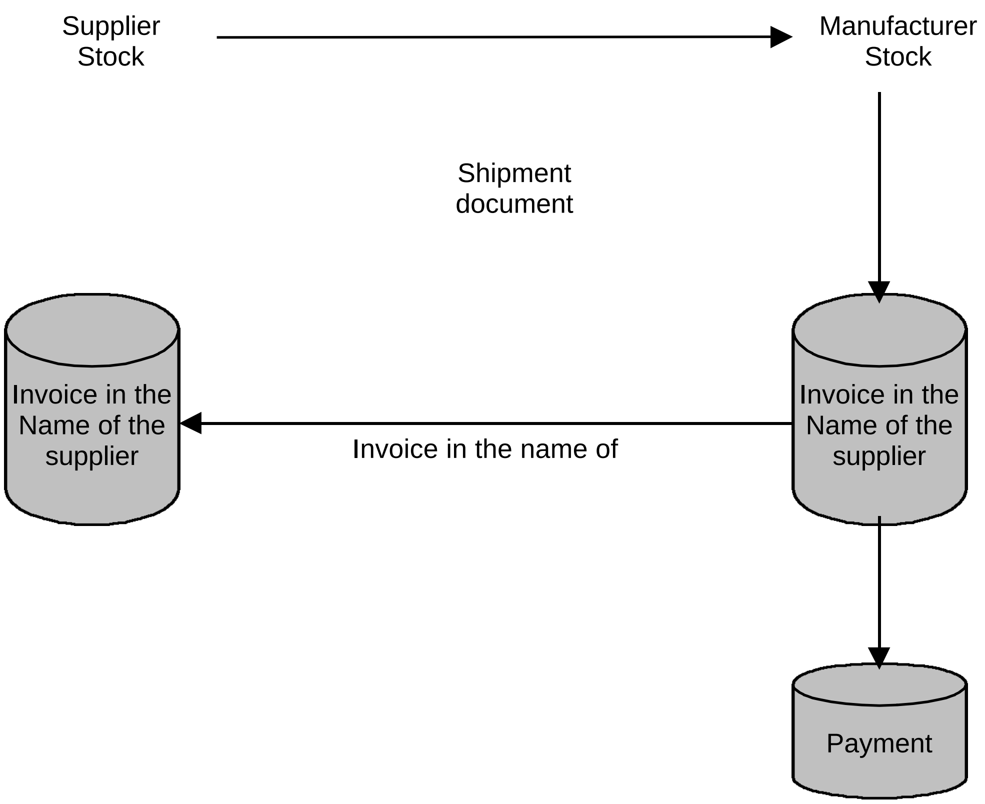
Data transmission of electronic invoices is allowed following authorisation.

Self-billing is not allowed, but the customer can obtain authorisation to produce the document, "In nome e per conto" (in the name of and on behalf of') but the legal and fiscal responsibility for the content and the book-keeping procedures belong to the supplier. The supplier is responsible for the VAT declaration.

This invoice must refer to a despatch advice or delivery note. The delivery quantity stated on the delivery note must be invoiced, even if it is not identical to the quantity that is actually delivered. The correction will follow later by a credit or a debit note.

No other document (e.g. cargo manifest) is needed as a reference in place of the despatch advice. As far as the data, all information needs to be transmitted and printed out by both partners.

"+" and "-" are not used on invoices (except for price increase/decrease and for additional rebate), only reversal and new invoices are allowed.



e) *NETHERLANDS*

The Civil Code and the General Tax Act allow the storage of invoices and accounting records on any kind of data carrier, with the exception of the balance sheet and profit and loss account, if some conditions are met.

These conditions are also applied for electronic invoicing.

Electronic Invoicing:
- Both the party sending the invoice and the party receiving it must obtain a licence
- The Tax Unit evaluates the application, being advised by experts
- Before the inspector grants the requested licence, a document justifying the implementation of electronic invoicing, must be filed
- A trial period of at least 6 months will be fixed

Conditions for Electronic Invoicing:

General Tax Act: art. 52:

- All data must be kept on data carriers in such a way that they are clearly readable at any time
- The VAT law regulations must be observed
- Accounting records must be kept for 10 years
- Transfers to other data carriers must be accurate and complete
- Data have to be available and readable within a reasonable timeframe

An electronic invoice is regarded as an invoice for VAT if:
- The electronic invoice contains at least all data necessary for a paper invoice
- Both the sending and the receiving party have an identical set of data which can be recognised as an invoice by the authorities
- This set of data can be structured into code tables
- An invoice number and an invoice date are provided

Verification:
- All electronic invoices sent between the parties, must be reconciled at least once a month by means of a survey on paper
- The survey of concordance is drawn up in duplicate by the party sending the electronic invoice
- The original document must be sent to the customer, whereas duplicate must be kept

The survey of concordance must report:
- supplier's name and address
- customer name and address
- in the case of an intra-Community supply, the VAT identification numbers
- date of the survey of concordance
- total number of members sent per session to be indicated by a unique session number and data
- total number per session and per survey of concordance

Each invoice must quote:

- date
- number
- total amount and amount per VAT rate, regarding the supply of goods/services
- discounts and additional charges, with their respective VAT rates
- total VAT amount and VAT amount per rate
- amount of invoice, inclusive of VAT

f) PORTUGAL

Commercial legislation in Portugal, in particular article 28 in combination with article 35 does not foresee that VAT related documents may be issued by the customer for goods, even with the permission of the suppliers.

However on an exception basis Self-Billing may be authorised, providing that the following conditions are met.

1. Invoices will be computer processed and will fully originate from invoice programmes and contain all the elements as required under number 5 of article 35 of the VAT regulations.

2. Invoices should be produced in line with the corresponding supplier shippers.

3. There must be an invoicing number sequence unique to each supplier.

4. Invoices have to be sent to the supplier within 5 days of their generation.

5. The original invoices must be returned from the suppliers duly signed, preferably also stamped.

6. The buying companies will only be authorised to deduct VAT if in possession of the original invoices signed or authenticated by the suppliers as referred to above.

7. A list of suppliers working under these terms will be provided. Such a list will be sorted by district and sent to the various "Direccao de Financas" offices local to the suppliers' head offices.

Within this scenario EDI for SBI in particular in regard to item 5 is not allowed.

g) ***Spain***

The Spanish legislation does not specifically provide for the self-billing invoice. However, there is nothing in that legislation text that could prevent a designated third party from producing and remitting invoices of commercial operations.
This third party, which should be authorised by the genuine invoice issuer, could be the customer, which is supposed to receive the invoices.

Following this model, most of the Spanish manufacturers use the self-billing invoice system with their suppliers, according to the following two cases:

1. “Standard self-billing invoice”: Customer, authorised by the supplier, issues himself the invoice.

2. “Non-standard self-billing invoice”: Customer sends a document summarising to the supplier the operations that should be included in the invoice. The supplier issues the invoice with all this information.

Concerning the paper-less invoicing or electronic invoicing, this practice is nowadays permitted by the Spanish legislation, but it is bound to an administrative authorisation regime, and it must be done under the authority of an officially designated promoter.

To eliminate the paper invoice, the companies interested in this system must firstly establish a contact with a System Promoter, which has an agreement with an Authorised Provider Centre, and then ask for administrative authorisation. This system could only be used between companies based in Spain, but it is also allowed for invoices issued by Spanish enterprises to foreign partners.

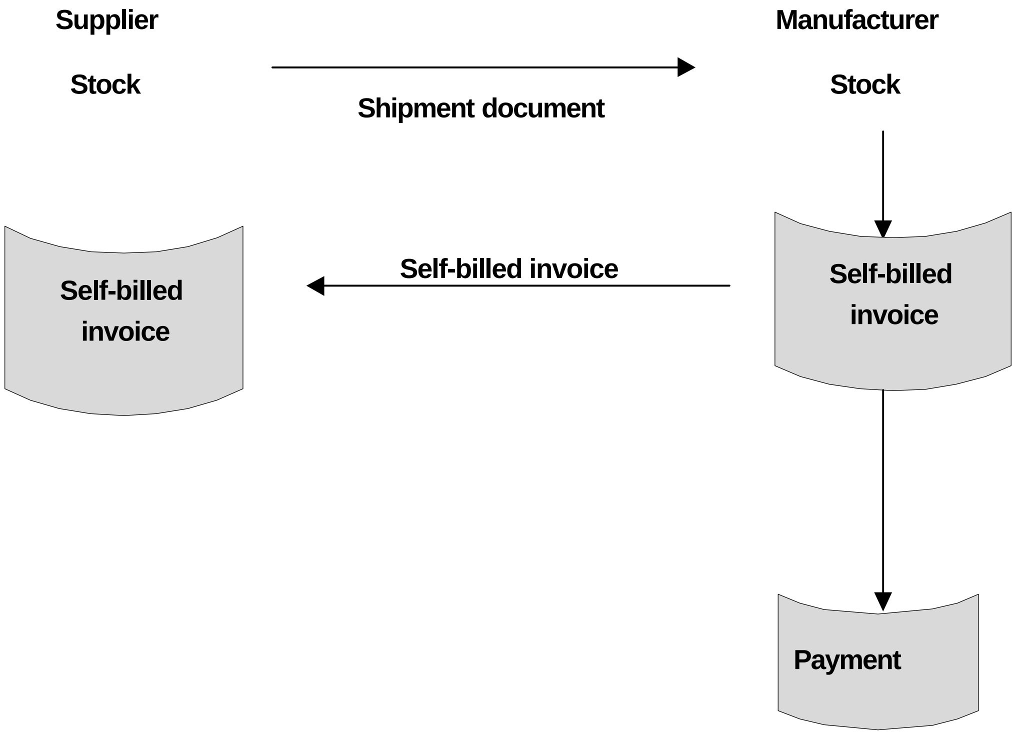
La Asociación Española de Fabricantes de Automoviles y Camiones (ANFAC), is an Authorised Promoter Centre for an Electronic Invoicing System based on IT systems. This procedure has been designed basically for the transmission of the ODETTE INVOIC Version 3 message, using TELEINFORMATICA (GEISCO network) as the provider for the Clearing Centre Services.

The actual global process of migration to the EDIFACT subsets, has delayed the implementation of the paperless invoicing. We expect that, during the year 2000, this implementation will take place and ANFAC will ask for an extension of the authorisation of the previously described process, to the EDIFACT INVOIC subset. The technical part of this process has been almost completely solved and the system could be put to work in a short time).

h) Sweden

Paperless self-billing is explicitly allowed if the self-billed invoices contain the prescribed data and the Basic Processes ensure data integrity between customer and supplier. The supplier may use self-billed invoices as a basis for VAT declaration. The completeness of the entire (editing, transmission receiving) procedure (including reference to the shipment document) has to be proved (evidence rule).

Data file, paper, documentation have the same value for proof. They must be part of the original procedure (no hearsay).



i) United Kingdom

1. General:

VAT-registered businesses must keep records and accounts of all taxable goods and services (covers Standard, Lower and Zero rates of VAT) that they receive or supply in the course of their business - they must also keep records of any Exempt supplies that they make.

In addition, they must keep a summary of the totals of their **Input Tax** (recoverable VAT on purchases) and **Output Tax** (VAT due on sales) for each VAT declaration period (viz - monthly, or three monthly) - this summary is known as a **VAT Account.**

These records must be kept up to date and must be in sufficient detail to enable the business to calculate correctly the amount of VAT that they have to pay to, or can claim from, HM Customs & Excise - records and accounts do not have to be maintained in any prescribed format, but must be kept in a way that that will enable Customs & Excise officers to easily check (during their periodic inspections) the figures that have been used to fill in the businesses' VAT Return (declaration).

Note: However businesses decide to keep their VAT records, they must be made readily available to Customs & Excise officers when they ask to see them - if the records do not satisfy requirements, HM Customs & Excise has the power to direct businesses to make the necessary changes.

2. Maintaining/Preserving Records:

Examples of records and accounts that HM Customs & Excise would expect to find at VAT-registered businesses include:-

The VAT Account (see above)
Purchase and Sales Day Books/Ledgers
Purchase invoices and copy sales invoices
Copies of any credit or debit notes issued/received
Copy Orders, despatch/delivery notes and/or appointment/job books
Cash books, bank statements and paying-in slips
Annual accounts, including Trading and Profit & Loss accounts
Record of daily takings/till rolls (retail sales only)
Copies of any import/export documents (where international trading is involved)

Business records must normally be preserved for a period of 6 years, but businesses can make applications to HM Customs & Excise for a shorter retention period - HM Customs' agreement must be obtained before any business records are destroyed within this 6-year period.

Records can be preserved on a wide variety of media, including microfilm, microfiche magnetic tape/disk and optical storage devices, provided that copies can be easily produced in a satisfactory legible form and that there are adequate facilities to allow HM Customs & Excise officers to view them when required.

3. **Computer Records:**

Business and VAT records/accounts may be kept on computers provided, again, that they can be readily converted into a satisfactory legible form and made available to HM Customs & Excise officers on request.

HM Customs & Excise has the powers of access to any computer systems that are used for a Customs-assigned matter (e.g. VAT records, tax invoicing), can check the operation of its' software (e.g. audits of the relevant application systems, by Customs' own computer auditors) and can take extracts/copies of the data stored thereon (viz. for file interrogation/transaction verification/exception reporting). These powers apply not only the VAT-registered businesses themselves, but to any third party/intermediary computer systems (e.g. computer bureaux) that they may employ to process and maintain their records.

4. **Related Matters:**

4.1 Self-Billing -

Self-billing is allowed within the UK, but requires the specific approval of HM Customs & Excise - a written application must be made by the proposed issuer of the self-billed invoices (viz. the customer), to his local VAT Office, setting out the reasons why self-billing is required.

The conditions under which self-billing approval may be given are as follows:-

a) The recipients of the self-bills (viz. the suppliers) must agree to the operation of self-billing.
b) Self-billed invoices must not be issued on behalf of businesses (suppliers) who are not registered for VAT purposes.
c) The self-billed invoices issued by the customer must be the only invoices issued for each particular supply - suppliers must not issue their own invoices.
d) The self-billed invoices must show all of the information required on a tax invoice, including the supplier's VAT Registration Number.
e) The issuer of the self-bills (the customer) must keep and maintain a record of the names, addresses and VAT Registration Numbers of all suppliers with whom self-billing is in operation - this must be reviewed periodically to ensure that the recorded particulars are still correct and must be available for inspection by Customs & Excise officers.
f) Suppliers must notify the issuer of the self-bills (the customer) of any changes to their recorded particulars (e.g. change of VAT Registration Number).
g) The self-billed invoices must be endorsed to the effect that " The tax shown is output tax due to HM Customs & Excise "

(Note - this endorsement is required on paper self-bills as a control over possible mis-posting to the suppliers' purchase records, instead of sales. In the early 1970s, Customs' inspections at a number of self-billed suppliers found that self-billed invoices had been treated, in error, as purchases and had been entered by accounts staff in the "wrong side of the books" - from the VAT position, these suppliers had reclaimed the tax from HM Customs & Excise instead of paying it, thus effectively "doubling" the tax error!)

4.2 EDI Self-Billing -

Self-billing by electronic means, as opposed to paper documents, may be allowed in the UK subject to formal self-billing approval being given by HM Customs & Excise (see 4.1 above) and compliance with its' standard requirements (see * below) for electronic tax invoicing - note that these latter requirements are in addition to the specific approval for self-billing.

In respect of item 4.1 g) above, the ongoing need for the endorsement on self billed invoices, in an EDI environment, largely depends upon how the recipients (suppliers) will handle and process the messages:

viz. If they simply print-out the documents then re-key them into their own application systems, then there is an ongoing requirement for the endorsement to be included, to act as a warning to the suppliers' accounts staff that the transactions are "sales".

If, however, the suppliers have a direct interface between their EDI self-billing receiving system(s) and their application systems, then it is recognised that inclusion of the endorsement in the EDI message would impose a character "overhead" that nobody, in effect, would read! - under such circumstances, HM Customs & Excise would be prepared to consider dispensing with the need for the endorsement and look instead for some form of inhibit being incorporated into the suppliers' application systems that would prevent mis-posting of self-bills to "the wrong side of the books".

Reference * above, in brief, HM Customs & Excise standard conditions for electronic (EDI) tax invoicing require that:-

a) Both the supplier and the customer give HM Customs & Excise at least 1 months prior written notification of their intention to either send or receive EDI invoices,
b) Give HM Customs & Excise the opportunity to examine the proposed EDI systems, to witness any trial of the systems and to inspect the results thereof.
c) The EDI messaging standard for the invoice (including self-billed invoices, credit/debit notes) must comply with UK VAT requirements for tax invoices.
d) For each file of invoices transmitted by electronic means, the **sender** must prepare a summary control report (can be archived electronically) showing the file to which it relates, a count of the number and types of document included in the electronic file and totals for the net and VAT amounts, by VAT Rate- this information must also be included as part of the transmitted file, usually within a file "trailer" message.

e) On receipt, the **receiver** must retotal the invoices included in each file and prepare his own summary control report - this report should show the control totals as transmitted by the sender (in the trailer) and the totals as recalculated by himself Provided the 2 sets of control totals agree exactly, the invoices may be passed into the receiver's application system. If there is any discrepancy, the receiver must prepare a discrepancy report and notify the contents back to the sender, for action/correction as necessary.

f) The **receiver** must impose an inhibit to prevent the same file from being processed more than once against his application system - this could, for example, be a duplicate invoice check embedded within the application system or by using synchronised file references with trading partners.
In terms of audit trail and record preservation, the requirements for EDI invoicing are essentially the same as for paper documents - see 1-3 above.

5. <u>Cross-Border/Intra-EU EDL</u>

In principle, HM Customs & Excise is fully prepared to consider the use of EDI for invoicing/self-billing between UK VAT-registered businesses and their international/EU trading partners and, indeed, has advocated the need for dialogue on such issues, with other EU tax administrations, on a number of occasions. Clearly, however, HM Customs can only represent the UK view and must also be sensitive to the principles of subsidiarity of other Member States to determine their own tax affairs/strategies.

The overarching issue is one of gaining the acceptance, of the majority of EU tax administrations, of trade/industry's needs to conduct its' business electronically in a cross-border environment - to achieve this, existing individual national requirements may need to give way to wider European interests and a greater recognition of the need for EU competitiveness when trading in the global market place. Given this resolve, the key issues then centre upon the potential opportunities for convergence of EDI/tax control strategies - e.g. presently, there are 15 Member States tax administrations specifying 15 different sets of requirements for what must be shown on a tax invoice! - the impact upon EDI standards is self-evident.

Quite how such a strategy(ies) could evolve does, to some extent, depend upon how the European VAT system will, itself, develop -

The present transitional European VAT system is based upon destination principles whereby supplies between tax-registered businesses in Member States are (usually) Zero-rated from the "exporting" Member State and become liable to acquisition VAT in the "importing" Member State, at the VAT rate(s) in force in the importing Member State. Under destination, all tax accounting is principally effected within the importing Member State, with the business declaring the tax as both "due" to the tax administration and recoverable from the tax administration (subject to the tax administration's rules for tax recovery).

The definitive European VAT system has not been finalised, but there has been previous dialogue within the European Council of Finance Ministers (ECOFIN) to shift VAT from a destination to an origin base, whereby intra-EU supplies would be chargeable with VAT at the rate(s) in force in the exporting Member State. Under an origin-based system, the tax charged would be collected by the tax administration in the exporting Member State and would be recovered from the tax administration in the importing Member State (viz. more than 1 Member State would be involved in the VAT accounting process requiring, perhaps, the need for greater mutual assistance).

Clearly, any decision on "destination versus origin" could have a knock-on effect upon the extent/level of control that Member States would wish to impose over intra-EU electronic invoicing systems.

6. HM Customs & Excise response to questions asked at Pages 12/13 of the Odette Self-Billing Task Force Final Report -

6.1 Legal Restrictions -
Is self-billing allowed? -
Yes, subject to formal Customs approval and the imposition of certain conditions (see 4.1 above).

Is cross-border self-billing allowed? -
Customs is prepared to consider the use of self-billing for supplies both out of and into the UK.

Who is legally responsible for the content? -
The customer (the issuer of the self-bill) is responsible for ensuring that the self billed invoice content can satisfy Customs requirements for tax invoices. Regarding any amounts of tax (VAT) declared, the supplier, in agreeing to the operation of self-billing, is responsible for accounting for the tax to Customs - similarly, the customer has legal entitlement to tax recovery, subject to the normal UK VAT rules regarding deductibility of tax.

Incorrect invoice/invoice not issued -
For an incorrect invoice, the usual UK convention would be either to raise a self billed credit note to cancel the original invoice and then issue a new invoice, or raise a credit note to adjust the incorrect amounts on the original invoice. For "non-issue", the customer (the issuer of the self-bill) could be liable to a penalty from Customs - under UK VAT Law, there is a requirement for a VAT registered business to issue a tax invoice in respect of any taxable supplies made, unless the business makes retail sales and does not normally issue invoices. In the case of self-billing, the customer would not be able to make tax recovery, as there would be no invoice to substantiate this.

Information to local authorities -
None, other than the customer's initial application to his local VAT Office to operate self-billing.

What kind of agreement etc? -
Any commercial arrangement/contractual agreement as to the operation of self billing is left to the trading partners to decide/agree. From the tax perspective, the supplier has to give the customer his agreement to operate self-billing and the customer must adhere to certain conditions, which are notified in writing by Customs as part of their approval process.

Information on the self-billed invoice? -
Whether issued on paper or by EDI, the document must comply with UK Customs requirements for tax invoice content (Regulation 14 (1) of the VAT (General) Regs. 1995), including the suppliers' VAT registration numbers - since the customers issue the self-billed documents, they have to obtain the suppliers' numbers in order to flow them as part of the document/message.

Timing for issue of the self-billed invoice/correction -
The time of supply (known as the Tax Point) for self-billing purposes is normally determined by the customer (the issuer of the self-bill), but this must conform to Customs rules - the tax point (for supplies of goods) may be:-

Either a) The date of delivery (the "basic" tax point)
or b) The date of issue of the self-billed invoice, if issued within 14 days of the basic tax point.

An invoice must normally be issued no later than 14 days after the basic tax point, unless specific authority has been given by Customs. For corrections, by credit note for example, there is no set time limit imposed by Customs - however, the credit note must refer back to the original invoice and any tax adjustment must be made at the VAT rate(s) that was in force on the original invoice.

What documents/messages must be exchanged? -
In the day to day operation of self-billing, the only documents that need to be exchanged are the self-billed invoices themselves - if EDI self-billing is used, there is the additional need to exchange summary file control information.

What tallies of material movements etc.? -
Not applicable in the UK - any reconciliation between movements and invoices would normally be carried out by visiting Customs officers, as part of their normal assurance programme.

Can EDI self-billing be used? - Yes, see above.

Any Third Party restrictions? -
Not aware of any UK restrictions - distribution centres for example would be covered by "Deliver to/from" addresses within the message, but should not affect the "Invoice to/from" addresses that are required for tax purposes.

6.2 Fiscal Restrictions -

Most of the questions in this section have already been covered at 6.1 above - however, further comment is provided in respect of the following:-

VAT rules for goods in transit -
Normally, within the UK, the actual movement of goods has no direct bearing on tax accounting, other than the potential effect upon tax points - it is usually the invoice that is the prime accounting document for VAT.
The situation perhaps only becomes significant at the end of a VAT reporting/ declaration period, where there may be supplies actually in transit that have not yet been invoiced - the potential effect here is one of the deferral of tax accounting to the following tax period, depending upon the tax point used. It is not possible to explore every permutation/possibility without covering each and every permutation of the (complex) tax point rules; suffice to say that HM Customs & Excise would take a serious view of any deliberate exploitation and circumvention of payment of the proper amount of tax at the proper time.

Currency for VAT on self-billed invoices -
It is permissible, under UK VAT law, to use billing currencies other than Sterling at invoice line level, but the resulting invoice totals/total VAT must also be shown in Sterling, for VAT accounting purposes.
The rate of exchange used must also be shown - this can be either the daily rates as taken from national newspapers (e.g. Financial Times), the period rate of exchange as published by HM Customs & Excise, or some other method that may be agreed with the local VAT Office.
With specific reference to the Euro, until such time as the United Kingdom joins European Monetary Union, the Euro will, to all intents and purposes, be regarded as another foreign currency, tied to a fluctuating exchange rate.