

3 pillars: The three essential elements of e-invoicing and e-invoice

Introduction:

With the global adoption of electronic invoicing, there is sometimes confusion about what constitutes an electronic invoice(e-invoice), especially when the adoption is new in a country.

Let's start with the definitions according to the Collins dictionary:

Invoice – *“An invoice is a document that lists goods that have been supplied or services that have been done, and says how much money you owe for them”*

Electronic – *“involving or concerned with the representation, storage, or transmission of information by electronic systems”.*

Based on the above definitions, we can summarize that an invoice is a document that lists items or services provided and the amount due. When it's electronic, this means it's created, stored, or sent using electronic systems.

For tax purposes, invoices must meet specific requirements to be accepted as tax invoices, which can vary depending on the jurisdiction. It's important to note that electronic invoicing is not solely adopted for tax purposes, its implementation can vary based on a country's needs and the problem its government aims to solve.

For example, in Australia, electronic invoicing is not mandatory yet. The primary aim of introducing e-invoicing is to facilitate the way of doing businesses and streamline processes. Presently, the Tax Administration can't access detailed invoice data, it only has access to high level aggregate data. It is expected that in the future, the adoption of electronic invoicing in Australia will become mandatory.

Definitions from Tax Administrations and government entities:

The motivation for implementing electronic invoicing at country level depends on three key aspects:

- 1) The specific problem that the implementation of e-invoicing aims to solve.
- 2) Whether the adoption of e-invoicing is mandatory
- 3) The anticipated developments following the implementation of e-invoicing.

To clarify what defines an e-invoice, e-invoicing and what does not, we have compiled different definitions from various tax administrations, free trade agreements in the table below:

| No | Country | Definition | Format | Mandatory or not (Y/N) |
|----|--------------|--|--|------------------------|
| 1 | Colombia | The electronic invoice is the evolution of the traditional paper invoice. For legal purposes, it has the same validity as paper, however, it is <u>generated, validated, issued, received, and stored electronically</u> ¹ | A standard format for generating the invoice in XML a format that uses the UBL V2 standard for its construction, as defined by the DIAN | Y |
| 2 | Chile | Legally valid <u>digital document</u> as a means of backing up commercial operations between taxpayers and, therefore, replaces traditional paper invoices. ² | XML | Y |
| 3 | Saudi Arabia | A tax invoice that is generated in a <u>structured electronic format through electronic means.</u> A paper invoice that converted into an electronic format through coping, scanning, or any other method is not considered an electronic invoice ³ | PDF/A-3 with embedded XML or XML | Y |
| 4 | Australia | eInvoicing is the <u>digital exchange</u> of standardised invoice information between suppliers' and buyers' software through the secure Peppol network. ⁴ | OASIS UBL 2.1 – XML | N |

¹ source: <https://micrositios.dian.gov.co/sistema-de-facturacion-electronica/factura-electronica/>

² source: https://www.sii.cl/factura_electronica/que_es_fact_elect.htm#:~:text=La%20factura%20electr%C3%B3nica%20es%20un,las%20facturas%20tradicionales%20de%20paper

³ source: <https://zatca.gov.sa/en/E-Invoicing/Introduction/Pages/What-is-e-invoicing.aspx>

⁴ source: <https://www.ato.gov.au/businesses-and-organisations/einvoicing/what-is-einvoicing>

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| 5 | New Zealand | Is the direct exchange of data between any 2 accounting systems , that makes doing business smoother, faster and safer. ⁵ | OASIS UBL 2.1 – XML | N |
| 6 | Malaysia | e-invoice is a digital record between seller and buyer ⁶ | XML/JSON | Y |
| 7 | European Commission | e-invoice is an invoice that has been issued, transmitted and received in a structured electronic format which allows for its automatic and electronic processing ⁷ | XML based specifications (UBL/CII) | n.a |
| 8 | New Zealand European Union Free Trade Agreement | “electronic invoicing” or “e-invoicing” means the automated creation, exchange and processing of invoices between suppliers and buyers using a structured digital format ⁸ | n.a | n.a |
| 9 | New Zealand – Singapore – Chile Digital Economy Partnership Agreement | electronic invoicing or e-invoicing is the automated creation, exchange and processing of request for payments between suppliers and buyers using a structured digital format. ⁹ | n.a | n.a |

Based on the definitions from Tax Administrations, the European Commission, and the European Free Trade Agreement, it is important to clarify the difference between e-invoice and e-invoicing. As presented in the definitions above, an e-invoice is the document represented in a digital structured format, while e-invoicing refers to the process and mechanism to generate and exchange the invoice in the structured digital format.

With that in mind, here are the three basic elements to conceptualize e-invoicing:

- 1) It's a mechanism to generate, issue and store an invoice.
- 2) It's the process of exchanging invoices between seller and buyer.
- 3) This process uses the invoice in a structured digital format (most common format is XML)

From our research, it appears that the vast majority countries that implement electronic invoicing utilize the invoice in XML structured format.

Some countries, like Saudi Arabia, classify PDF-A3 as an e-invoice because it's a PDF with embedded XML.

⁵ source: <https://www.einvoicing.govt.nz/#:~:text=NZ%20businesses%20are%20eInvoicing&text=eInvoicing%20is%20the%20direct%20exchange,business%20smoother%2C%20faster%20and%20safer.>

⁶ <https://www.hasil.gov.my/en/e-invoice/e-invoice-communication-and-publicity/infographic/infographic-2024/>
⁷ <https://ec.europa.eu/digital-building-blocks/sites/display/DIGITAL/What+is+eInvoicing#:~:text=Electronic%20invoicing%20is%20the%20exchange,Directive%202014%2F55%2FEU.>

⁸ Chapter 12 of the New Zealand European Union Free Trade Agreement

⁹ Article 2.1 of the New Zealand- Singapore- Chile Digital Economy Partnership agreement

Now, what is not consider as e-invoice:

- 1) PDF invoices
- 2) Copy of invoices
- 3) Scanned invoices.
- 4) Paper invoice
- 5) Printed invoice
- 6) Photo of the invoice
- 7) Invoice in a word document.
- 8) Anything else that is not in the scope of the definition above.

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