

Trends in digital reporting



- future developments of information transfer between businesses and governments

SVENSKT NÄRINGSLIV OCH DELOITTE

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Digital reporting, for what purpose?

Regardless of whether you are a small or large entity, it was long ago since business reporting seized to be a manual process. The financial reporting systems that companies – or service providers – use are normally entirely digital. Nevertheless, the transfer of financial information to authorities and other parties outside the reporting entity (for example filing of tax returns, statutory and prudential reporting, information to the financial markets, business statistics etc.) have up until now still remained analogue with significant manual features. This paradox can be portrayed as a lag in the digitalization of society that many governments for various reasons have had difficulties to address. However, this is currently changing. In jurisdictions around the world there are several examples of initiatives and strategies to use digital means to change the transfer of information from the business sector to the government with the aim to create a more seamless process. It is hardly surprising that governments aim to transform their reporting requirements and make the transfer of information from the business sector more digital, as there is obviously a lot to gain in terms of efficiency and simplification. But there are other possible consequences that may not be equally desirable.

This report is an outcome of an assignment to Deloitte Sweden to provide an overview over some current trends in digital reporting from businesses to governments with the aim to create a platform for a deepened and more initiated discussion of possible future pathways. The report shows that different countries are approaching this transition from different angles. Generally, southern European countries are moving towards a real-time data-driven reporting environment from primarily a tax gap perspective, with the ambition to reduce the informal economy. A similar development can be seen in Latin America as well as in Russia and Eastern Europe. The adoption of real-time data-driven approaches in Russia and Eastern Europe is however not only driven by the ambition to close tax gaps, it is also a key to fight corruption and financial crime on a more universal level.

In countries with a relatively low tax gap, for example the Netherlands, Germany, Belgium, Sweden and the UK, the business case for investing heavily in a real-time data-driven reporting environment is likely to be significantly weaker. The relations between authorities and reporting entities in these jurisdictions are largely built on mutual trust, which is reflected in the orientation of the digital reporting initiatives in these countries. Digitalization in countries with a low tax gap is more directed towards service, simplification and assurance of the internal data processing within the tax paying entity. These countries also appear to have a more restricted attitude towards the collection of large amounts of data.

Looking outside Europe, there are examples of more advanced data-driven authorities in countries with a high level of tech-savviness that are not burdened by legacy positions (e.g. reliance on outdated or obsolete processes and technology). This combination of traits has enabled authorities in for example Australia and certain south-east Asian countries (e.g. Cambodia and Vietnam) to adopt and implement new technologies into existing or newly created workflows with comparative ease.

Thus, when looking into the background of new digital reporting requirements in different countries, it is difficult to single out one sole underlying driver behind the various initiatives. Apparently, improving tax collection capabilities is an important motivator. But the ground for digitalisation of reporting requirements does not necessarily have to be associated with the collection of tax. Simplification and release of administrative burden for in particular SME:s are also important drivers. Digitalisation is for example seen as a key instrument to implement the once-only principle (TOOP), meaning that business entities should only have to report a particular piece of information once to the government. Perhaps a more vaguely articulated motive is the expectation of positive side-effects from the re-use of aggregated business data for third parties. Within this discussion, the benefits are expressed in more ambiguous terms, suggesting positive consequences of digitalisation in terms of economies of scale, enhanced business opportunities and reduced cost of capital. The Nordic Smart Government is one example of a digitalisation initiative where expectations of positive outcomes are articulated around availability of business data for third parties.

From a business perspective, there is evidently much to be gained from facilitated reporting processes, increased possibilities for information to be re-used between authorities and thus, an eased reporting burden. Digitalisation of reporting obligations is however not unproblematic. Larger data flows and the re-use of reported data raises questions regarding business integrity, confidentiality and potential misuse of information, where the integrity issue is the most intricate. Digitalisation also creates conditions where it is possible to collect large quantities of data to which advanced analytical methods can be applied. It may cause damage to businesses by exposing trade secrets and strategies not intended to be transparent.

For government authorities and enforcers, the digital development enables the use of new supervisory tools and methods. Sampling or risk-based selections are hardly necessary if the supervisory authority is able to scan all transactions with relative ease, to look for outliers and inaccuracies. As the report states, formal reporting mistakes could be numerous due to system issues, incorrect or missing data as well as other factors out of control of the reporting entity. Even if such errors have little impact on actual taxes paid, they may be subject to sanctions or penalty fees. In order to protect the legal rights of reporting entities and to strike a right balance between the authorities' enforcement power and the risk of formal reporting errors, enforcement capacities and sanctions may need to be adjusted to the new digital environment.

Another aspect of the digital development is the potential to shorten reporting periods significantly. A more immediate access to data may for instance be of value for investors that find the current delay of financial market information problematic. If the axiom of capital market theory holds, this would lead to a reduced cost of capital for reporting entities. Shortened reporting periods also create an opening for governments to improve cash-flow by moving towards more real-time driven tax payments and thus impose an indirect tax increase. The initiatives to introduce split payments to secure inflow of VAT is one example of this, where the VAT is separated at the time of payment. Undesirable aspects of shortened time-frames for reporting entities is disrupted business processes as well as cash flow impacts. As pointed out in the report, this has been the result of the introduction of mandatory e-invoicing in Italy. Shortened reporting periods also creates a need for enhanced internal control and governance procedures as the window for reporting entities to correct errors before delivery of information diminishes. Decisions that are taken on for example VAT have to be correct already from the start. As those normally answerable for reported data will have little room to ensure accuracy, transfer of data in real-time also give rise to questions around accountability.

As highlighted in the report, digital reporting from businesses to governments must be based upon a common presentation format and common definitions to achieve all the potential benefits. The taxonomies that XBRL-reports are based upon is one example of such standardisation. Standard Business Reporting, or SBR, is another. Without standardisation of reported data, effective data sharing between authorities and comparisons between reporting entities will not be possible. In general, lack of comparability is frequently raised as an argument against principle based financial reporting. Some see the common definitions and structured data that comes with standardised digital reporting as a method to overcome this. However, business reporting requirements derives from different obligations and purposes and the assignments of the receiving authorities also differ. There is a reason why reported information to for example investors and other actors on the financial markets differs from the data collected for tax enforcement.

The varying purposes of the reported information is an obstacle that complicates standardisation and obstructs efforts to create common reporting taxonomies. In addition, the underlying legislation, standards and norms on which the reporting requirements are based upon change continuously. A common standard used for all business to government reporting purposes thus need to be updated on a regular basis. If not time and resources are allocated to such maintenance, the taxonomy quickly becomes outdated. Lack of time to update the taxonomy may also become a source for delays in the process of setting new and changed reporting requirements. The postponed implementation of the European Single Electronic Format (ESEF) for annual reports of listed companies is one illustration of how time-consuming the creation of a relatively non-granular common standard may be.

The point here is not to challenge the effort to make reporting easier for the business sector, but to point out the risk of underestimating the time and cost for maintenance of a reporting standard that shall answer to a multitude of different information needs. Particularly if the aim is to agree upon an international standard. Any effort to create an infrastructure for digital reporting, such as the Nordic Smart Government initiative that is further described in the report, must ensure that enough resources are dedicated to this task, otherwise the grand efforts spent on standardised reporting will soon be wasted. It is important that the business sector, as well as other parties affected, is involved in the development at an early stage to keep the road map ahead compatible with the resources available for all parties and to ensure that the original intentions are retained.

The drawback of standardisation is lack of flexibility. Accounting has been likened to the language of business and the information is used both for management purposes and for the publication of external reports. To stay relevant, financial reporting must be able to mirror the underlying affair of the reporting entity. If the presentation format is too strict and leave little options for the reporting entity, the decision usefulness of the information may be impaired. Reporting entities commonly answer to this by using alternative measures that are communicated alongside statutory reports. In addition, users may require alternative measures that answer to their information needs if the standard reporting format is deemed irrelevant. This may in turn hamper the aim to ease the administrative burden of reporting entities. This issue is particularly relevant for large corporations with complex business structures. Generally, the report shows that the benefits of various digital reporting initiatives are dependent on the size of the reporting entity.

Looking forward it is naïve to assume that the need for standardised data will not affect the content of the reporting requirements, i.e. the actual reported figures and how they are structured. The usefulness of XBRL-reports will increase the more granular the tagging of data is. Once implemented, a demand for stricter presentation, specific disclosure requirements and validation of data can be expected. On the tax-reporting side, we already see a discussion on how to make the tax legislation more code friendly in order to allow for automatic tax assessments within the systems of the reporting entity, and to make comparative analyses between tax paying entities more accurate. This in turn blurs the responsibilities concerning the interpretation of tax law that the code is based upon.

Finally, on the list of challenges to be highlighted when introducing solutions for digital reporting to governments, it is important that the reporting entities can adapt to new requirements by using their own technical solutions. There are unfortunate examples of implementations that are limited to certain software providers. Digital delivery of annual reports in Sweden is for example only possible if the reporting entity use particular types of software. From a business perspective, it is essential that the chosen technical solution does not hinder innovation and new service providers to enter the market. Otherwise we risk being stuck with outdated solutions subsequently stalling potentially positive future development of more efficient reporting processes.

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1. The paradox of digitalisation of business reporting

1.1 Introduction

Public authorities collect and use a huge amount of data reported by the business sector. For reported financial data, the original source of the information is in most cases the highly automated financial systems used by the reporting companies. Nevertheless, the process of retrieving and preparing the information for public reporting purposes is in many ways still manual. It is not uncommon that the reporting process involves preparation and exchange of paper-based reports, and when digital reports are used, the level of standardisation is frequently low. As a result, significant resources are spent on assembling, transferring and rekeying data before it can be used for the purposes of the receiving public authorities.

Thus, despite a high level of digitalisation within the reporting entity, the transfer of financial data between businesses and the public is in many cases still highly manual. This paradox has triggered a multitude of initiatives within the area of tax and statutory reporting that aim to rationalise the process and create a digitalised interface between businesses and public authorities. Initiators and motives behind this transformation vary, but enhanced capability of secure tax collection is an important driver behind many initiatives. Faster and more effective dissemination of financial information to the market is another. For reporting entities, there are opportunities to streamline the reporting process and cut costs. As the digital transformation enables the reuse of data between authorities, there is potential to lighten the reporting burden significantly.

Although the maturity level differs, the development of digital solutions for retrieving and processing business information is on the agenda in many jurisdictions and there are several examples of cross-national cooperation in this area. The signs are clear that we are experiencing a shift in how financial data is collected and processed by public authorities. Although the degree of completion varies, it has become increasingly evident that public authorities are generating the means to collect and process a much greater amount of financial data than previously and new methods of enhancing audit, control and enforcement are being explored and implemented. However, management of large amounts of information comes with numerous responsibilities. In the pursuit of new digital means for reporting and data collection, public authorities find themselves facing questions around data ownership, privacy and the rule of law. The collection of large amounts of data should not be a goal in itself, particularly if technology can allow for access to the right data when needed.

The development within business reporting of financial data affects tax and accounting functions that nowadays regularly find themselves participating in or even driving IT projects, working hands-on with configuring tax decisions and reporting requirements in the financial systems, for instance. It was rare for tax departments to drive these activities a couple of years back. To illustrate the level of impact on organisational processes, workflows, business models etc., the digital transformation can be described in terms of digitisation, digitalisation or digital transformation. The term digitisation is used to distinguish digital replacement of existing workflows from more fundamental changes to working methods driven by digitalisation. While many new reporting requirements are far-reaching in their visions, time and budget constraints for

businesses make it difficult for most entities to achieve more than limited adaptations to the regulations. Nevertheless, the development towards more immediate reporting in real-time and greater access to digital financial data may affect reporting entities in more profound ways than simply managing compliance within finance and tax functions, including the way business is conducted.

1.2 Aim

This aim of this report is to reveal current trends in digital reporting of information from businesses to public authorities and to highlight major consequences thereof. Although there are a multitude of reasons for public authorities to collect and retrieve information from businesses, the report focuses on financial information collected by tax authorities and used by businesses for statutory reporting.

The findings are based on public documents as well as a survey and interviews¹ with experts from six European countries on the front-line of digital reporting: Netherlands, Norway, Italy, Poland, Spain and the United Kingdom (UK). The approaches to digital reporting in these jurisdictions are regularly used as examples in discussions around possible future directions of digital reporting requirements in countries that are still at an early stage of development in this area. The digital reporting initiatives in the countries covered by the report are so far primarily focused on digital reporting for tax purposes, as efficient tax-collection is an important driver for government action in this area. However, the conclusions are also relevant to a more general discussion of the future development of digital reporting of financial information between businesses and public authorities.

To illustrate current trends in digital reporting, the various country-specific initiatives described in the report are grouped into four major clusters: **e-Invoicing**, **Real-time reporting**, **e-Filing**, and **e-Audit**. These clusters demonstrate the essential differences between reporting initiatives, as well as similarities in impact on businesses of the different approaches to digital reporting.

1.3 Outline

The next section gives examples of the primary drivers behind digitalisation within the two main areas of business reporting: statutory reporting and tax filing. The section also provides a brief description of the status of digitalisation of business reporting in Sweden. The third section of this report describes in greater detail the four main clusters previously mentioned. Section four illustrates the examples of digital reporting discussed in the report with more detailed examples from specific countries. Here, the practical design of the reporting process, its impact on business workflows, internal control, etc. is explained in more detail. Our main observations are summarised below and outlined more thoroughly in the last section five of the report.

1.4 Main observations

The maturity level of digital reporting differs significantly between jurisdictions. Many countries are still in an exploratory phase where one definitive national approach to digital reporting is yet to be crystallised. Reaching a higher degree of compliance, increased efficiency and simplification both for reporting entities and authorities are important factors driving many initiatives in digital reporting. The overarching purpose influences how reporting initiatives are outlined and how much emphasis is put on

¹ The interviews were conducted during the spring and early autumn of 2019.

data collection. In simple terms, countries with a relatively high tax gap tend to push harder towards collecting data and jurisdictions with a lower tax gap tend to prefer solutions that rely on mutual trust and assurance of taxpayers' work processes.

The experiences from the initiatives reviewed in this report point to several relevant issues that should be taken into consideration in the development of a digitalised reporting environment. Among these, we would like to highlight the following:

There are examples of digital reporting requirements that have had material impact on how companies run their everyday operations. When evaluating alternative future pathways, the possibility of such consequences affecting the real economy should not be neglected. This is especially true on an international scale where multinational enterprises face a high degree of complexity in implementing reporting solutions that deal with the fragmented reporting landscape in different countries. In some cases, complex reporting requirements may even impact where global enterprises choose to establish themselves.

Collection and access to huge amounts of data by authorities leads to important considerations around privacy and confidentiality. Aggregated financial data on a detailed level from businesses may contain sensitive information that may be used for multiple purposes and access to data may not always be in the best interest of the business sector.

Increased access to a large amount of financial data from businesses will also affect the work processes and capabilities of government authorities. Initiatives such as legal assessments provided via code and supervisory decisions made by algorithms could in some instances be positive but could also give rise to questions regarding accountability, transparency and sanctions.

Last but not least, complying with new digital requirements is often costly and time-consuming for businesses. The technological challenges related to implementing new reporting obligations linked to systems and data are regularly underestimated. Solutions that are grounded in an understanding of the complexity of business systems and the potential difficulties of retrieving data cannot be reached without a dialogue with the business sector. And even when such agreed solutions are reached, the timeframes for implementation must be realistic. Because of the often short timeframe between proposal and implementation, the time for businesses to act strategically in response to the new obligations is generally limited. Further, as the current reporting environment is constantly changing, nailing down a sustainable digital strategy is a burdensome and difficult process for businesses. This is particularly so for larger entities dealing with a variety of requirements in several jurisdictions.

2. Outlook on digital business reporting

2.1 Two main reporting purposes

The dominating purposes of reporting financial information from businesses to government authorities are statutory reporting and tax filing. Initiatives to digitalise the reporting process typically take place within one of these two separate areas. Although there are efforts to combine the two areas of purpose and to reuse reported data, for most jurisdictions these visions are still in an embryonic stage. This section contains a brief background on the current status of digital statutory reporting and digital tax filing. This is followed by an overview of the current status of the digitalisation of business to government reporting in Sweden.

2.2 Statutory reporting

Although accounting records and other financial data handled by businesses have been digitalised for many decades, the filing of statutory reports such as annual financial statements to national business registers and other public authorities is still largely a manual process. However, since a couple of years back, statutory reporting is slowly becoming digitalised and electronic reports are permitted or required in several jurisdictions. In the EU, listed companies will be required to file their annual and consolidated financial statements for annual reporting periods beginning in 2020 or later in a single electronic format (European Single Electronic Format, ESEF).² This requirement stems from the Transparency Directive, which aims to ensure market efficiency through transparency of financial market information. The purpose of the single electronic format is to improve investor access to structured data and thus to improve the setting for efficient decision-making. The required filing formats, XHTML and iXBRL, were specified in a Commission Regulation adopted in 2018.³ The recipients of the electronic reports are the authorities supervising the securities markets in each member state, but the aim going forward is to create a single European database for all electronic financial information from listed companies. The American Securities and Exchange Commission's EDGAR database⁴ for filing of annual registration statements and periodic reports for companies listed in the US may be viewed as a prototype for such a database. Access to EDGAR is free and available to everyone.

XBRL, (eXtensible Business Reporting Language), is an XML-based standard format for digital financial reporting, which assigns meaning to terms by tagging financial data, which in turn allows for systematic search and aggregation of financial information retrieved from financial reports. The tagging of data follows a specific glossary or taxonomy that specifies the meanings and terms that should be used for the specific reporting requirement. For example, the IFRS taxonomy developed by International Accounting Standards Board (IASB) is designed for tagging of financial statements prepared in accordance with International Financial Reporting Standards, IFRS. The taxonomy used is normally specific to the regulatory framework according to which the reported data is prepared. As a financial report in XBRL is not easily

² Directive 2004/109/EC.

³ Commission Delegated Regulation (EU) 2018/815.

⁴ Electronic Data Gathering, Analysis, and Retrieval.

readable by humans, iXBRL is a development of the standard that allows for both human and machine reading. XBRL and iXBRL can be used for digital filing of all types of business reports, financial and non-financial. Besides statutory reports, the standard is required for prudential reporting in the financial sector in the EU and for tax returns in some countries. For example, Her Majesty's Revenue and Customs (HMRC) in the UK requires all companies to submit their tax returns using the XBRL format. Since a few years back, some European countries, including Denmark and the Netherlands, require non-listed companies to file statutory annual reports in XBRL.

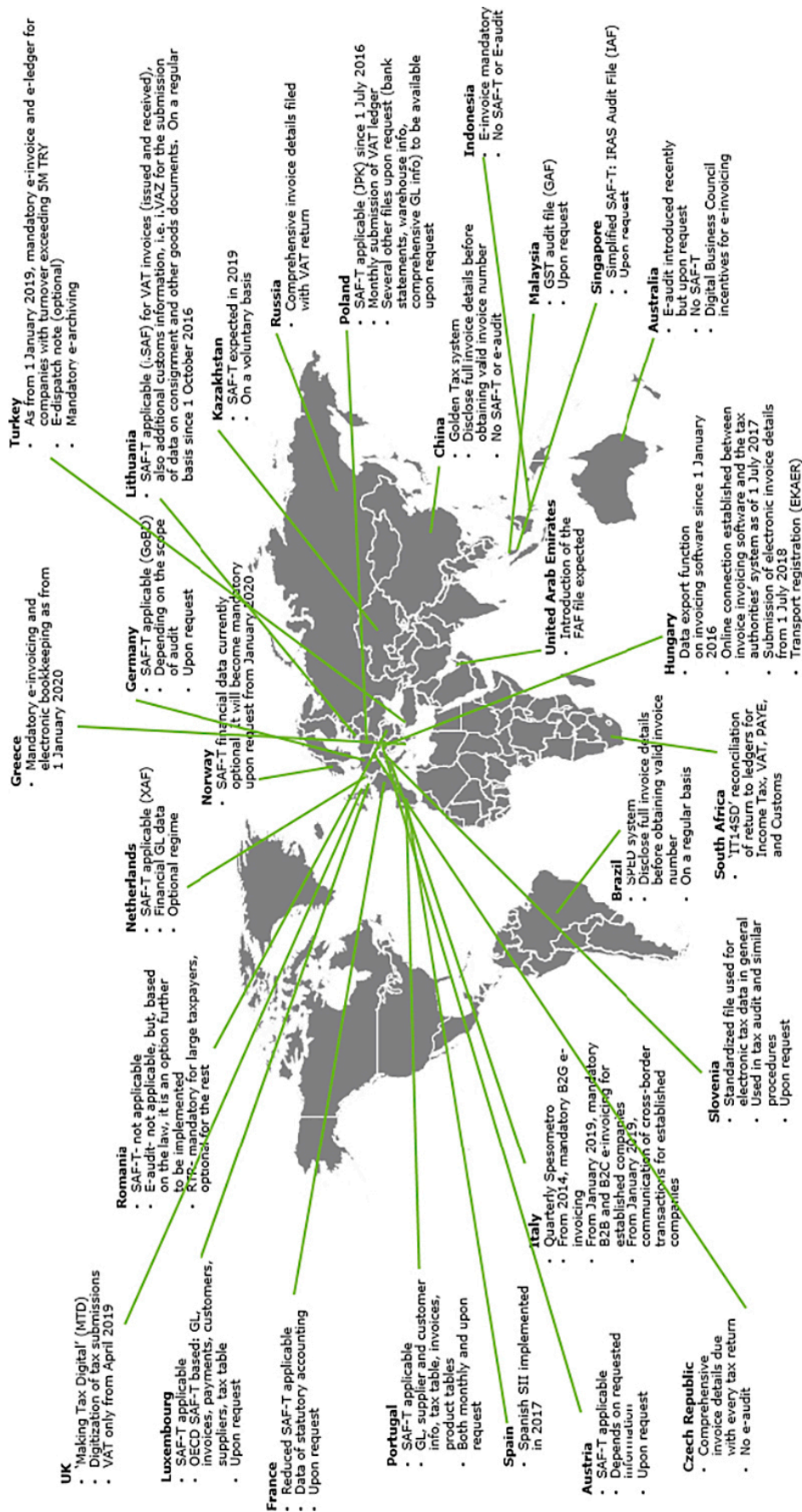
The use of XBRL can be expanded beyond tagging of financial statements to include balances within the general ledger as well as individual transactions. The term Standard Business Reporting, or SBR, designates the broad use of structured data. The idea behind SBR is to create a common ground for reporting to government authorities that enables the use and reuse of financial data for a variety of purposes, such as minimising the reporting burden for companies. In practical terms, SBR is based on a common taxonomy for reporting that is built into the software at the account level, allowing for automated retrieval of data from the internal systems of companies. The development and continuous maintenance of such a taxonomy implies a high level of standardisation and requires extensive cooperation between government agencies, software developers and intermediaries. Examples of jurisdictions with advanced SBR initiatives are Australia, New Zealand and the Netherlands.

2.3 Digitalisation of tax reporting

The OECD working group “Forum on Tax Administration” (FTA) is a forum for tax authorities to discuss topics of common interest, global trends and new ideas to enhance tax administration. The working group meetings are attended regularly by representatives from 53 jurisdictions, including the G20 members. The aim is to improve taxpayer services and tax compliance by increasing the efficiency and fairness of tax administration and reducing compliance costs.⁵ At the FTA meeting in Beijing in 2016, the representatives agreed on a common digital roadmap. The aim behind the roadmap is to transform the current working processes of the tax agencies in the participating jurisdictions to becoming more digital. Emphasis is put on data as a valuable resource rather than as a residual product of the tax return compliance process. This in turn allows for more work to be done in the present - a real-time data-driven tax environment.

Notwithstanding the high-level message in Beijing, national interpretations and applications of the terms agreed upon show large differences in practice. Today, a few years after the meeting, the global landscape of digital tax reporting can be illustrated by the map below with a variety of new types of reporting obligations or other means to collect data from businesses. None of these initiatives are identical and the lack of standardisation between countries is apparent.

⁵ OECD, Forum on Tax Administration. Viewed 2019-11-21, available at: <https://www.oecd.org/tax/forum-on-tax-administration/>.



Source: Digital transformation and tax (Deloitte, 2019).

To facilitate standardisation between jurisdictions, FTA has initiated the development of a Standard Audit File for Tax (“SAF-T”), aimed at creating a uniform format for the transfer of financial data that can be used for taxation and other purposes. SAF-T allows for the transfer of data from tax-paying entities to government authorities in a standardised electronic format and enables tax authorities to conduct more efficient and effective tax inspections and audits. It is also the intention for SAF-T reporting to replace other types of extensive reporting obligations. The file format in SAF-T files is XML, which is both machine and human readable (although difficult for humans to read in practice). A handful of countries such as Austria, France, Luxembourg and Portugal originally adopted SAF-T reporting and in recent years they have been followed by Lithuania, Poland and Norway. In other jurisdictions, introducing a reporting requirement such as SAF-T is still under consideration. It should be stated that even though the word “standard” is included in the definition of SAF-T, there is no real standardisation taking place in practice on an international level. All countries that have so far adopted the OECD standard for SAF-T have done so differently, both in terms of requirements and interpretations.

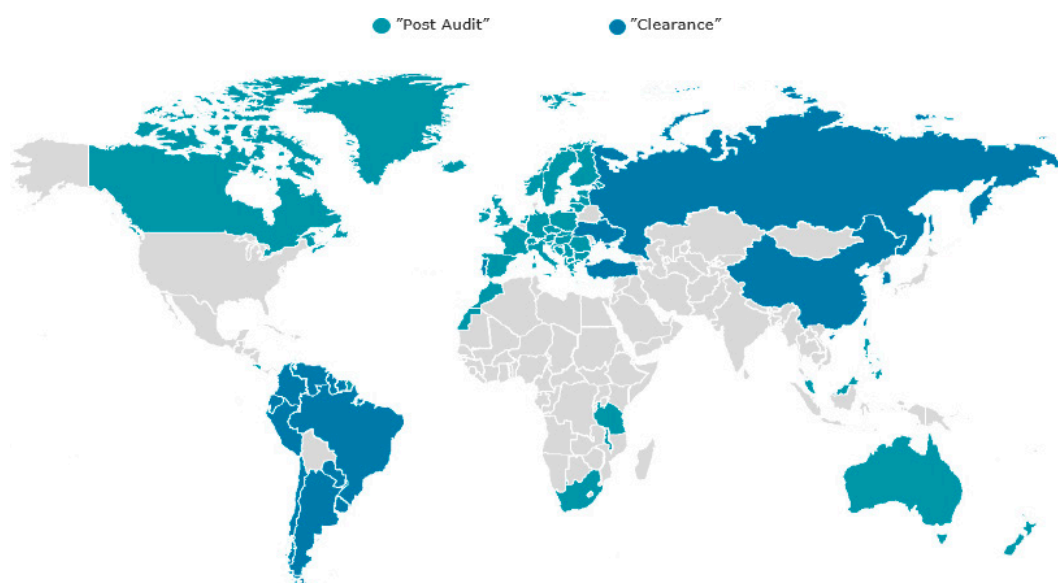
The potential to improve tax collection methods through digitalisation have been shown to be particularly significant in the area of indirect tax. The basic mechanics of the most common indirect tax, the value added tax (VAT), grants the government a certain percentage of the value that is added at each step of the economic chain of any product or service that is eventually consumed by an individual. The VAT system in Europe (and in a majority of other jurisdictions that have implemented VAT) places the burden of tax collection onto organisations and businesses, making them responsible for reporting VAT and collecting VAT for the tax authorities at each step of the value chain. The VAT turns into tax revenue for the government as the services or goods produced are privately consumed. VAT is for many governments one of their main sources of revenue, but the efficiency of VAT collection varies among tax authorities. Typically, a government has what is called a VAT gap of around 10-30%, which is the difference between the expected VAT revenue and the actual amount collected. EU member states lost an estimated EUR 147.1 billion in revenue due to VAT fraud and inadequate tax collection systems in 2016.⁶ In 2015-2016, the average gap in the EU was estimated at 12%, but the gap differs extensively between member states. Luxembourg, Sweden and Croatia observed some of the lowest VAT gaps, at approximately 1%. On the other side of the spectrum, Romania, Greece and Italy recorded VAT gaps of over 25%. Unsurprisingly, the countries with the largest VAT gaps are also the countries that are most eager to introduce new technologies and digital reporting obligations and to increase the efficiency of collecting tax-relevant data.

In most countries, invoices constitute the primary evidence used to determine how much indirect taxes should be collected from taxpayers. A system for electronic invoices that can be audited effectively has been identified by many tax authorities as one of the key instruments for reducing the VAT gap. E-invoicing means that an electronic invoice is exchanged between a supplier and a buyer. The invoices are typically delivered in a specified standardised format. E-invoicing is a fast-moving field driven by technological progress, enabling digitalisation of the supply chain and the regulatory mandates from government for their adoption. Using electronic submission of e-invoices or invoice data to tax authorities has been adopted by several countries, with varying degrees of success. Monitoring of invoices (or invoice data) has been identified as one of the crucial steps in lowering tax gaps and creating efficiency and value through digitalisation.

⁶ CASE - Center for Social and Economic Research (2019), *Study and Reports on the VAT Gap in the EU-28 Member States: 2019 Final Report*, Warsaw. Viewed 2019-11-21, available at: https://ec.europa.eu/taxation_customs/business/tax-cooperation-control/vat-gap_en.

The two most common systems for the tax authorities to monitor for Business to Business (B2B) e-invoices are the “post audit” and the “clearance” methodologies. The first methodology, which is the most commonly applied regulatory system for e-invoices in the EU, entails that the tax authorities audit invoices and VAT-related data post execution, sometimes years after the actual transactions took place. The clearance methodology on the other hand, implies that the supplier sends the invoice in a specified format to the tax authorities before or in conjunction with sending the invoice to the customer. In “hard clearance” countries, the invoice is sent to the buyer first upon clearance from the tax authorities, whereas “soft clearance” countries allow the supplier to send the signed invoice to the buyer without first obtaining a clearance from tax authorities, but the supplier has thereafter a limited amount of time to clear the invoice.

The clearance model plays an important part in the trend towards real-time reporting and further tax controls performed by tax authorities. The model is currently most prevalent in South America and Asia but it is also starting to become more common in the EU; it has already been implemented in Italy and its introduction has now been proposed in other countries as well. As mentioned above, there is also a trend in some countries to design controls of VAT reporting on a transactional level, commonly based on data from a SAF-T file.



Simplified map showing current distribution of the two major regulatory e-invoicing systems worldwide.

Source: Tax-compliant global electronic invoice lifecycle management, 2016.

2.4 Digital reporting in Sweden

Digital Governmental Review of Sweden

In June 2018, the OECD presented a report on the digital nature of government in Sweden.⁷ The OECD notes that Sweden has every potential to build a strong governmental digital foundation, but also that some areas can improve:

“Sweden is currently struggling to balance the need and demand for a stronger government role in terms of digital government and open data with the independent

⁷ OECD (2019), *Digital Government Review of Sweden: Towards a Data-driven Public Sector*, OECD Digital Government Studies, OECD Publishing, Paris. Available at: <https://doi.org/10.1787/4daf932b-en>.

and autonomous role of agencies in terms of policy implementation. In this line, the Swedish government faces the challenge of exploring how to use hard policy levers such as laws and regulations to define mandatory actions to be implemented by agencies while also drawing upon the collaborative culture within the Swedish public sector to achieve coherent policy results.”⁸

The OECD report has triggered several assignments from the Swedish government. For example, The Swedish Agency for Economic and Regional Growth has been assigned to map and promote the ability of SMEs to use data as a strategic resource.⁹ The OECD report identifies the Swedish Agency for Digital Government (DIGG) as a key player in advancing digital government. DIGG was established in 2018 and serves as a hub for digitalisation of the public sector. In comparison with its peers in other countries, DIGG is so far small in terms of size and enforcement power.¹⁰

Another recommendation in the report is the development of an open data strategy to make data publicly available by providing open APIs, for example. As of today, Sweden is one of the few OECD member countries that do not have a formal open data policy. Open government data is currently a focus area for both DIGG and the Swedish Tax Agency and future collaboration between these and other government authorities is expected.¹¹

Once-only principle

Since several years back, a priority for the Swedish Ministry of Enterprise and Innovation has been to facilitate the reuse and sharing of business information reported to public authorities. The final aim is that entities should only have to submit data once, the “once-only principle.” One step in this direction is *Verksam.se*, a platform developed by the Swedish Agency for Economic and Regional Growth together with the Swedish Tax Agency and the Swedish Companies Registration Office that provides information and services designed to meet business needs, rather than from the perspective of the authorities. *Verksam.se* addresses entrepreneurs who already have or would like to start a business and offers several e-services aimed at facilitating everyday operations and the day-to-day contact with authorities. The platform mainly provides services around registration of company information and allows for the passing on of information from one e-service to another. The information that can be registered through the platform and shared among government authorities is primarily company registration data and not periodical financial information.

Verksam.se was initiated as a result of the recommendations of a Swedish government inquiry, which was instructed to present proposals under which information reported by businesses to government authorities would, as a rule, only need to be submitted once.¹² The inquiry suggested the introduction of a single entry point to all governmental e-services to which authorities would be required to connect, a recommendation that was later considered too far-reaching. In the following consultation, the Swedish Tax Agency presented their view on how business data preferably should be collected: directly from the systems of the companies, rather than manually fed via e-services.¹³

⁸ OECD, *Digital Government Review of Sweden: Towards a Data-driven Public Sector*, p. 70.

⁹ Infrastrukturdepartementet (2019), *Regeringsinitiativ med anledning av OECD:s grundläggande genomlysning av Sveriges digitaliseringspolitik*. Viewed 2019-11-21, available at: <https://www.regeringen.se/artiklar/2019/08/regerings-initiativ-med-anledning-av-oecd-s-grundlaggande-genomlysning-av-sveriges-digitaliseringspolitik/>.

¹⁰ OECD, *Digital Government Review of Sweden: Towards a Data-driven Public Sector*, p. 68.

¹¹ OECD, *Digital Government Review of Sweden: Towards a Data-driven Public Sector*, p. 93.

¹² Swedish Ministry of Enterprise and Innovation (2013), SOU 2013:80, *Ett minskat och förenklat uppgiftslämnande för företagen*.

¹³ Swedish Tax Agency (2015), SOU 2015:33, *Uppgiftslämnarservice för företagen*, ref. no. 131-367055-15/112.

To collect or not to collect

The Swedish Tax Agency belongs to a group of tax authorities that have expressed little interest in collecting large amounts of data for control and auditing purposes. Instead, the agency's vision as described in various fora during recent years is to direct the effort towards the internal processes and systems of the tax-paying entities and the (automated) decisions that take place before tax returns are completed. A cornerstone of this approach is secured and reliable digital information chains.¹⁴ The vision of the Swedish Tax Agency as well as tax authorities in many other countries in Europe, such as HMRC in the UK with "Making Tax Digital", emanates partly from an OECD study from 2014, which introduces the concept of "Tax Compliance by Design".¹⁵ In short, the study describes how revenue bodies can exploit developments in technology and the ways in which modern SMEs organise themselves in order for them to incorporate tax compliance into the systems businesses use to manage their financial affairs.

The study, which is discussed in more detail in section 3.3, is a continuation of the Swedish Tax Agency's previous work linked to the concept of "right from the start". It highlights the importance of adopting an end-to-end perspective, i.e. a holistic view of the combined processes of both the taxpayer and the revenue body. Furthermore, it envisions that the role of the tax authorities will shift from being a passive recipient of data and tax returns into an active facilitator of compliance.

In recent years and in line with the vision, the Swedish Tax Agency has explored digital tools that have potential to simplify specific tax or filing issues from the taxpayer's perspective. The target audience for such tools are primarily small and medium-sized companies. The objective is to secure the quality of data within business systems and integrate tax in the tax paying entity's internal processes. Examples of explored tools are open APIs that can be used to create digital information chains with secured data or make the regulatory framework available in machine-readable format. The idea is to enable and facilitate software development and the initiatives are run in close cooperation with software developers. The Tax Agency has initiated collaborations and workshops with external parties with the objective of finding possible innovations and solutions. Besides software vendors, the agency has also invited accounting firms and banks to collaborate.

Another initiative by the Swedish Tax Agency is the chatbot "Skatti" launched in 2018. The chatbot is able to answer some specific questions about taxation. Using artificial intelligence Skatti is being trained by each iteration of communication. The use of artificial intelligence in public workflows was among the topics addressed by a Swedish government inquiry that presented their recommendations in 2018.¹⁶ The inquiry's remit was to identify unnecessary legal obstructions for digital development and collaboration within the public sector.

Digital annual reports

A service for online filing of annual reports in iXBRL for small companies¹⁷ was launched by the Swedish Companies Registrations Office in March 2018. In February 2019 the service was extended to include large non-listed companies. Digital filing

¹⁴ Swedish Tax Agency (2017), *Skatteverkets inriktning. Bakgrund, fördjupning och exempel*, ref. no. 13190968–17/1211, 2017-02-28.

¹⁵ OECD (2014), *Tax Compliance by Design; Achieving Improved SME Tax Compliance by Adopting a System Perspective*, OECD Publishing. https://read.oecd-ilibrary.org/taxation/tax-compliance-by-design_9789264223219-en#page1.

¹⁶ Swedish Ministry of Finance (2018), *SOU 2018:25, Juridik som stöd för förvaltningens digitalisering*.

¹⁷ Small companies as defined in article 3(2) in Directive 2013/34/EU (Accounting Directive) and reporting under the accounting framework for such undertakings (K2).

of consolidated annual reports or annual reports from listed companies is presently not possible. The voluntary electronic service requires access to specific software and so far the adoption of electronic filing has been lower than expected.¹⁸ However, the Swedish government has expressed a long-term intention to make digital filing of annual reports mandatory for all companies.¹⁹ One driver for digitalised filing of annual reports is the possibility of using automated checks and validations performed by software. Since the introduction of the digitalised service, around 80% of electronically filed annual reports have been automatically validated by the office.²⁰ Currently, the same checks and validations are being made regardless of the format of the annual report. However, receiving the data in a machine-readable format opens up the possibility of creating validations of errors and discovery of missing data that has previously not been possible due to the impracticality and cost of dealing with paper submissions.

In 2016, a group of Nordic organisations started drafting a common programme aimed at integrating the Nordic region through shared data, similar to the concept of SBR. The program was launched in May 2018 by the Nordic Ministers of Business.²¹ The vision of the Nordic Smart Government (NSG) programme is to create a digital ecosystem of business data for public and private actors. NSG's initial vision is primarily targeted towards SMEs, aiming to implement a digital infrastructure that enables SMEs to share economic and financial data automatically and in real-time. The infrastructure would build upon the idea of creating interfaces for extracting data from internal systems using APIs rather than aggregating data in a single governmental database. According to the programme, the ecosystem of real-time structured data can provide value for both public and private actors. For SMEs, the value is expressed in terms of simplification, reduced administrative burden and enhanced efficiency. For public authorities, the value is expressed in terms of improved transparency and tax auditing as well as easier supervision and control. Service providers are anticipated to benefit from NSG through improved innovation, growth, product development and data access. The value of the expected benefits suggested by the national participants in the programme is massive. According to a report from EY in Denmark, the value of making financial data available to Nordic SMEs can be estimated at approximately EUR 25-27 billion annually from 2027.²²

¹⁸ According to data published by the Swedish Companies Registration Office in November 2019 the total number of digitally filed annual reports was approximately 40,000. Swedish Companies Registration Office, *Standard Business Reporting*, 2019-11-07.

¹⁹ Swedish Ministry of Enterprise and Innovation 2018-03-21, Uppdrag att utveckla tjänsten för digital ingivning av årsredovisningar m.m. för alla företagsformer, N2018/02033/FF.

²⁰ Swedish Companies Registration Office, *Standard Business Reporting*, 2019-11-07.

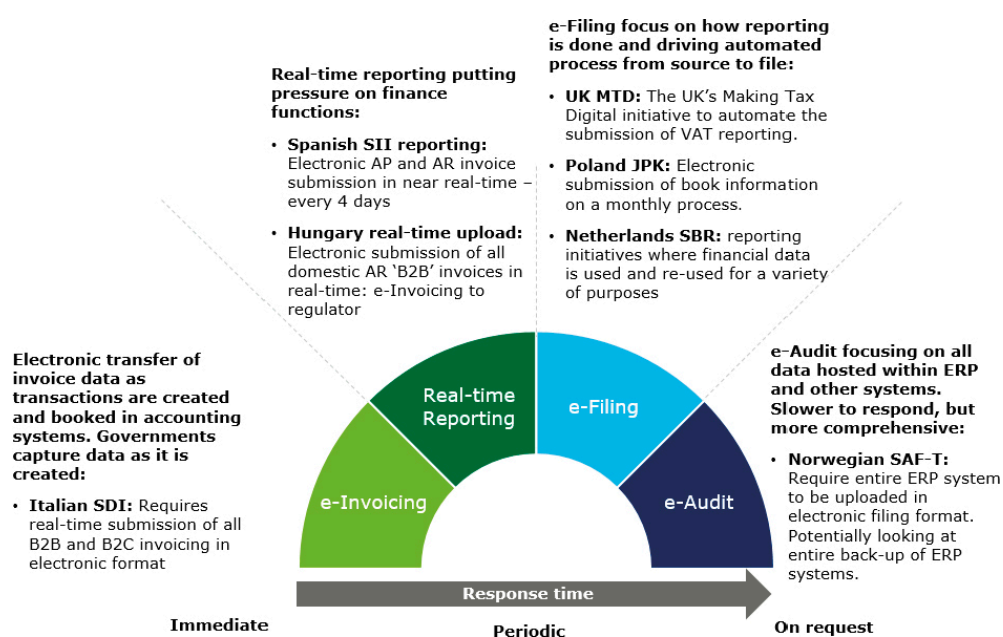
²¹ Nordic Smart Government, Vision. Viewed on 2019-11-26, available at: <https://nordicsmartgovernment.org/>.

²² EY (2018), *Nordic Smart Government Business Case for Nordic SMEs – business to business*. Viewed on 2019-11-21, available at: https://bolagsverket.se/polopoly_fs/1.175321/ey-business-case-for-nordic-smes.pdf.

3. Directions in digital reporting

3.1 Four clusters

In recent years there has been enhanced collaboration between European tax authorities to prevent tax evasion and the EU has made attempts towards a more common structure for the collection of VAT on cross-border transactions.²³ However, differences in approach, legislation and local requirements make a broad standardisation of tax collection in the EU unlikely. National tax authorities have adopted different approaches to optimally performing their function of tax collection, as well as the methods used for executing that task. This is illustrated by the many different approaches to tax collection and monitoring described in the following chapters. However, on a high level, the observed approaches can be roughly divided into four different directions or clusters. These directions, which we have for the purposes of this report called e-Invoicing, Real-time reporting, e-Filing and e-Audit, are described in more detail below.



Four directions of digital reporting for tax: e-Invoicing, Real-time reporting, e-Filing and e-Audit (Deloitte 2019).

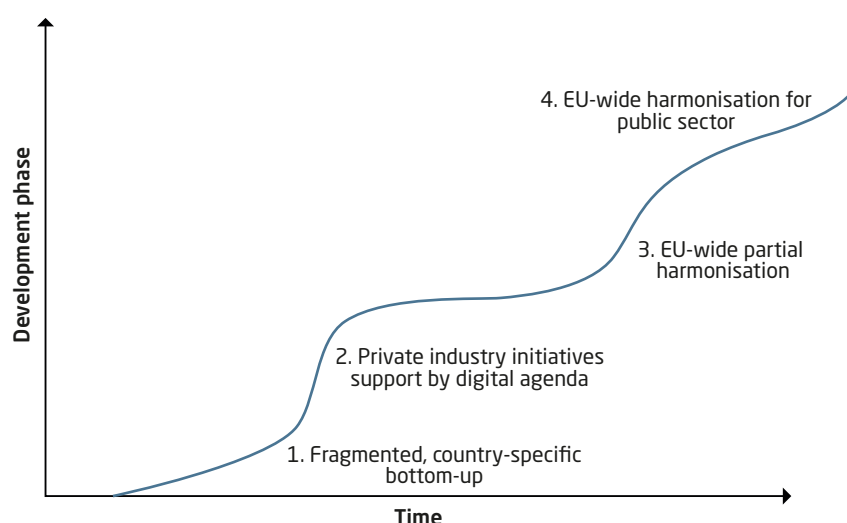
The direction defined as *e-Invoicing* will in this report be exemplified with the latest developments in Italy. *Real-time reporting* is exemplified with the initiatives on digital reporting in Spain. Developments in the UK, Poland and the Netherlands will represent the direction of *e-Filing* and the *e-Audit* approach is exemplified with the new SAF-T reporting obligation in Norway. It should be noted that the allocation of spe-

²³ Within EU VAT reform, certain proposals target a change in the collection of VAT both in B2B and B2C trade. However, agreement has not been reached on the proposal regarding comprehensive changes in the “definitive VAT system”. Changes in the collection of VAT on B2C transactions regarding the VAT e-commerce package, have and will be implemented in two steps. The first set of rules came into force 1 January 2019 with regard only to telecommunications, broadcasting and electronic services. The second step has been agreed in the Council (entering into force January 2021), targeting e-commerce from a broader perspective and making platforms liable for VAT.

cific jurisdictions to different reporting standards can never be final. Government approaches to digital reporting may shift over time and the methods of different authorities in the same jurisdiction may also differ. Thus, a specific jurisdiction may very well be positioned in more than one cluster within the model for different financial and tax reporting streams.

3.2 e-Invoicing

The concept and processes around e-invoicing are not new to businesses. Companies began establishing data links with trading partners decades ago to transfer business documents, such as invoices and purchase/sales orders. Some key business trends from recent years, such as “the paperless office” and reliable data transfers, also resulted in some larger initiatives in relation to e-invoicing for B2B transactions. In many countries including the Nordics, the rise of electronic invoicing was originally industry-driven.



E-invoicing development in the EU

Source: Billentis Market Report 2017

The developments of electronic invoicing in Europe over the past decades can be described by four major waves, as illustrated above. In the beginning there was classic bottom-up growth in each single country. The service providers developed the market in the early stage but often with local and isolated approaches, resulting in multiple formats and different solutions across the broader spectrum. After a while, national initiatives were launched, particularly by stakeholders in the Nordics, for improving collaboration and the standardisation of developments. Thus, e-invoicing increasingly became a topic on public digital agendas. Subsequently, due to market fragmentation and growing cross-border trade, e-invoicing was included in the action plans of the European Commission. This resulted in some directives, reduction of barriers as well as standardisation measures.

The eProcurement Directive²⁴, issued in 2014, is expected to affect more than 300,000 public administrations when fully implemented. It obliges public authorities to support certain procurement processes towards electronic procedures. Although the obligation only applies directly to the public sector, it also has a significant impact

²⁴ Council Directive 2014/55/EU.

on the private sector as it indirectly affects all suppliers to the public sector. In addition, some countries have extended the requirements of the directive. In Italy, the implementation of the eProcurement Directive requires taxpayers to issue invoices electronically, in a specifically mandated format.

A reoccurring problem for entities implementing an e-invoicing process is that some legal requirements are not sufficiently clear in either the Invoicing Directive²⁵ or national law. An example is the requirement to guarantee the authenticity and integrity of the invoices. Most EU countries lack specific regulatory examples of what a fully compliant process could look like. On the contrary, several tax authorities in the EU have stated that they will not review the e-invoicing process for taxpayers, meaning that this should be a matter of self-assessment. In June 2018, the European Commission held a public consultation in order to evaluate the Invoicing directive.²⁶ One of the main conclusions from the consultation was the need for further guidance on what constitutes compliant business control and a reliable audit trail. Other identified areas of improvement were the need for simplification and harmonisation of time limits and rules on self-billing and cash accounting. The lack of details concerning the retention of invoices has also turned out to be an obstacle as member states have divergent requirements concerning retention periods and retention formats.



Most European countries have historically applied a post-audit approach to tax control. The post-audit model allows business counterparties to freely exchange invoices, provided that the authenticity and the integrity of the invoice is ensured. Tax authorities perform VAT controls through random audits for a certain time period after the transaction has taken place. Thus, the legal requirements as well as the challenges for businesses in relation to invoicing, have up until now mainly concerned the content and archiving of invoices. The shift towards a clearance model implies involvement from the tax administration at an earlier stage of the invoice lifecycle as it requires each invoice to be reported and validated before or during exchange. The authorities

²⁵ Council Directive 2010/45/EU.

²⁶ Council Directive 2010/45/EU.

provide the mandate for both the invoice format as well as the infrastructure to be used for exchange. This is, for example, what Italy has done with the RTR VAT control, and is in line with the discussions currently ongoing in Greece, for instance.

The European VAT Directive²⁷ prohibits member states from enforcing the use of electronic invoices in B2B trade. However, member states may require e-invoices for the issuing party in trade regulated in the e-Procurement directive.²⁸ Some countries, such as Italy, France and Spain, therefore have decided to make e-invoicing mandatory in all government procurement.

The Italian e-invoicing requirement is combined with mandatory submission of e-invoices through a government platform. This means in practice that the Italian authorities receive invoice data of all services and products sold by Italian taxpayers almost instantly from the moment the invoices are issued. In terms of the model presented for the purposes of this report, the speedy availability of data for the government authorities is parallel in the “e-invoicing” and “real-time reporting” clusters. However, the real-time reporting approach differs as the actual submission of invoices doesn’t involve the government authority and thus the business and cash flows are not impacted in the same way. This can be illustrated by the development in Hungary and Italy. Both countries have a B2B e-invoicing requirement but in Italy the government authority is supervising the whole invoicing process by requiring all invoices to be delivered through the government platform where they are subject to approval before delivery. The authorities in Italy have five days to reject the invoices which creates a potential delay in the invoicing process, applying a clearance methodology. In Hungary, invoices can still be delivered directly to the end customer without passing through a government platform for approval.

3.3 Real-time reporting

The information needed for tax and accounting purposes is normally obtained and therefore also available within the tax-paying entity’s core systems. Provided that the right data can be obtained, it is updated continuously, configurations are correctly installed, real-time (or near real-time) monitoring of financial data and reporting to government authorities is certainly possible. With real-time reporting there is a fundamental shift in how data is being collected and exchanged – a movement away from information being “pushed” to public authorities towards a position where it is being “pulled” by them.²⁹

Concerning the review of data by tax authorities, the ambition in countries applying the approach of real-time reporting is moving away from auditing periodic tax returns containing data that may be several years old to monitoring a more continuous flow of data filed for audit purposes. Many countries, such as the UK, have explicit strategies to “collect and process information affecting tax as close to real time as possible”.³⁰

The possibility to collect real-time data is enhanced by the technical development of devices that are connected to the internet (generally referred to as the Internet of Things or IoT). The multiple connections enabled by IoT offer possibilities of real-time data

²⁷ Council Directive 2006/112/EC.

²⁸ Council Directive 2014/55/EU.

²⁹ Deloitte (2019), *Real-time reporting – how soon is now?* Viewed on 2019-11-21, available at: <https://www2.deloitte.com/ie/en/pages/tax/articles/real-time-reporting.html>.

³⁰ HMRC (2019), *Making Tax Digital (MTD)-VAT End-to-End (E2E) Customer Journeys v5.0*. Viewed on 2019-11-21, available at: [https://developer.service.hmrc.gov.uk/api-documentation/assets/content/documentation/f66c79c-2c4fc2f0cf27c158b2411a1b2-MTD-VAT%20End-to-End%20\(E2E\)%20Customer%20Journeys.pdf](https://developer.service.hmrc.gov.uk/api-documentation/assets/content/documentation/f66c79c-2c4fc2f0cf27c158b2411a1b2-MTD-VAT%20End-to-End%20(E2E)%20Customer%20Journeys.pdf).

transmission from businesses to businesses and to public authorities. One example is the online cash register, which records all transactions and links these with the tax systems and tax service providers. IoT devices can be used to collect data in real time and are likely to be one of the main enablers of real-time reporting and collection of data from physical devices.³¹

Among the approaches to digital reporting reviewed for the purposes of this report, the initiatives in Spain and Hungary are presented as examples of the real-time reporting cluster. As mentioned above, the significant difference compared to the Italian model is that the Spanish and Hungarian models allow for transmission of the invoice directly from supplier to customer and then subsequent reporting of the invoice data to the authorities, whereas the Italian authorities require delivery of the invoice through a government platform. With the real-time approach there is no delay in the invoicing process as such caused by the need for government approval.

The Spanish and Hungarian models also differ from each other in some respects. The Spanish SII requirement provides a four-day timeframe between the date the invoice is issued to a customer until the required data has to be reported to the Spanish tax authorities. This delay still theoretically allows time for the businesses to review and adjust the data if necessary and makes the process semi-automated. The Hungarian model on the other hand, is more automated and in practise doesn't allow for human intervention. The time before the data should be provided to the authorities is more limited, which thus also limits the opportunity for internal controls and checks of the submitted data.

3.4 e-Filing

Under the e-Filing direction we have chosen to group such approaches to digital reporting that prioritise the automated processes from source to file and how the reporting can be used for business reporting purposes, rather than focusing on the amount of data and when in time this data should be reported. Examples of countries we have placed within the e-Filing category are the UK with the Making Tax Digital initiative and the Polish reporting initiative called *Jednolity Plik Kontrolny* (JPK), which is electronic submission of financial data from taxpayers on a regular basis. In addition, SBR as a shared strategy to move government reporting in the same direction can also be categorised as an e-Filing initiative. In this report, the Netherlands is used as an example of a country applying such a digital reporting strategy.

Another illustration of the e-Filing approach is the concept of “Tax Compliance by Design” that originates from an OECD report from 2014.³² It illustrates how revenue bodies can use the technological development and the processes of modern SMEs to invent effective ways of integrating tax compliance within the internal ERP systems of the tax-paying entity. Design adopts an end-to-end perspective as well as a holistic view of the combined processes of the taxpayer and the revenue body. The role of the tax authorities shifts from being a passive recipient of data and tax returns into an active facilitator of compliance. The approach Tax Compliance by Design is dependent on collaboration between relevant stakeholders such as tax intermediaries, banks, accountants, industry organisations and software developers.

³¹ OECD (2016), Rethinking Tax Services - The Changing Role of Tax Service Providers in SME, OECD Publishing. <https://www.oecd.org/ctp/rethinking-tax-services-9789264256200-en.htm>.

³² OECD (2014), Tax Compliance by Design; Achieving Improved SME Tax Compliance by Adopting a System Perspective, OECD Publishing. https://read.oecd-ilibrary.org/taxation/tax-compliance-by-design_9789264223219-en#page1.

The OECD presents two suggestions on how Tax Compliance by Design can be applied in practice. The general idea behind the first suggestion, the secured chain, is to create a secure flow of information from the origination of the business transaction to the final determination of the correct amount of tax being paid. Here, the role of the tax authority is primarily to act as a facilitator that enables a secure flow of information from the taxpayer. According to the OECD, this reduces the need for data access and data collection. It also makes post-filing audits less necessary, as the secured chain decreases the risk for errors.

The other suggested application, centralised data, aims at encompassing as many business transactions from the source as possible to determine the right amount of tax to be paid. Here, the tax authority takes an active part in the entire procedure of handling and transforming information, which in turn reduces the need for the tax-paying entity to provide data on its own. Common for both approaches is that the data flow needed to secure correct tax compliance is built into the underlying business processes. According to the OECD, this potentially reduces costs both for businesses and the tax authorities. In addition, the increased certainty about the current tax position may be of benefit to tax-paying entities.

The sponsoring commissioner of the OECD study was the former director-general of the Swedish Tax authority, Ingemar Hansson, and not surprisingly the declarations of the future approach to digital tax administration expressed by the Swedish Tax Agency share the compliance by design logic. So far, the main emphasis has been put on secure data flows from within the data source as well as support of the tax-paying entities' internal processes, rather than on collecting large amounts of data for auditing purposes. This is also similar to the approach adopted by HMRC in the UK.

A far-reaching application of the Tax Compliance by Design concept is the possibility of actual provision by the tax authority of tax logic or code to be used by tax-paying entities. The provision of code could ultimately secure how the tax authorities would be able to control how tax should be calculated and assessed in the internal system of the taxpayer. However, such a development is not unproblematic. Firstly, this requires programmable tax law which may require an entirely new legislative approach. The purpose of vague legal concepts and expressions of judgement is typically and especially in tax legislation to avoid loopholes and unforeseen situations. More precise wording in tax legislation could be risky from a tax collection perspective, with difficulties forming an overview of the consequences. Secondly, assessments made within the code developed by the tax authority may be mistaken for decisions made by that same authority. This obstructs transparency and automatically ranks the authorities' interpretations higher than those of taxpayers. Thirdly, providing tax legislation via code to taxpayers will also be technically challenging on the basis that the tax outcome of a transaction will often change depending on the specific circumstances of each taxpayer.

3.5 e-Audit

The fourth cluster of digital reporting initiatives in our model, e-Audit, is focused on extended and standardised data collection. Through digital, standardised reports, tax-paying entities are required to assemble and file a considerable amount of data on a regular basis. The increased interest in many countries in introducing SAF-T reporting, see also section 2.3, is an example of this new extensive data collection. One aim of the e-Audit approach is to enhance the auditing and analysis capabilities of the authorities. From a somewhat longer perspective, another purpose behind this

approach is to replace all, or a majority of, business-to-government reporting requirements in favour of creating a single reporting trail to public authorities.

In the Nordics, the SAF-T reporting requirement in Norway, mandatory from 2020, is a significant example of this reporting approach. SAF-T requires tax-paying entities to collect and upload data from the ERP system in a specified electronic format.

Interestingly enough, ensuring code-friendly legislation is not only interesting for countries applying the e-Filing approach discussed earlier, but will eventually also become of interest to countries such as Norway, where the tax authorities aim to collect large amounts of data in the future. We predict that the tax authorities in Norway (as well as other countries) will see an increasing need for standardisation and for streamlining the underlying legislation to make sure that the data collected from taxpayers is comparable, thus enabling relevant conclusions to be drawn from analyses based on the data. If the possibilities to interpret and define the legislation and concepts in the underlying law are wide, this will make the analysis based on the data provided in the upcoming SAF-T files less reliable. For instance, in situations when different SAF-T files from companies in the same industry will be compared for a risk analysis or to find anomalies, etc.

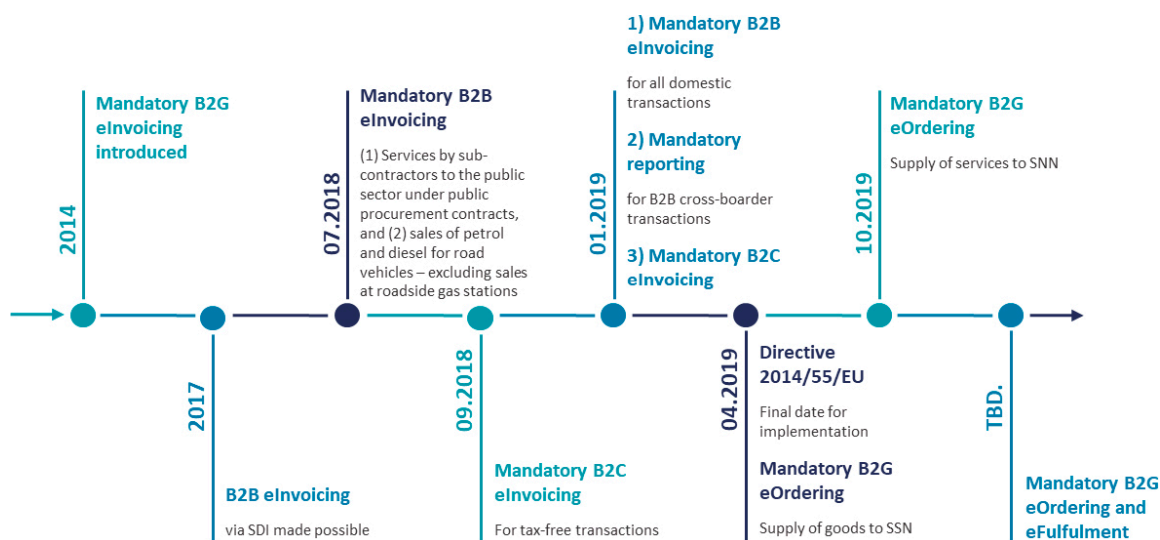
4. Description of the reviewed approaches to digital reporting

4.1 Italian e-Invoicing

Implementation of SdI

In June 2014, Italy introduced a mandate requiring the use of e-invoicing for ministries, tax agencies and national security agencies. Since 31 March 2015, e-invoicing is mandatory for all public entities. To facilitate and monitor the use of e-invoices, the *Sistema di Interscambio* (SdI) platform has been created. The platform acts as an infrastructure for the filing of electronic invoices, to which all Italian authorities are connected. All e-invoices intended to be sent to public entities first need to be submitted through SdI before they can be transferred to the final recipient.

The SdI platform is managed by the Italian Revenue Agency with support from Sogei, an IT provider owned by the Italian Ministry of Economy and Finance.³³



Timeline describing the swift development of e-invoicing in Italy, Deloitte and Payero 2019.

E-Invoices are submitted by the contracting parties through the SdI platform using the FatturaPA, which is an XML-based standard format.³⁴ The invoice is then sent to the addressed administration via SdI, which functions as an eDelivery system. The transmission of e-invoices to SdI can either be managed by the taxpayers themselves or be outsourced to third-party providers. Delivery of the e-invoice to the correct recipient is guaranteed by use of a unique identifier (Unique Office Code).

³³ CEF Digital – Connecting Europe, eInvoicing Documentation – Invoicing in Italy. Viewed on: 2019-11-21, available at: <https://ec.europa.eu/cefdigital/wiki/display/CEFDIGITAL/eInvoicing+in+Italy>.

³⁴ Ibid.

Once the e-invoice is submitted to SdI, some formal controls are carried out by the Italian Revenue Agency. In addition, before they are transmitted to the final recipient, the invoices are forwarded to the State General Accounting Department, which is responsible for the audit of public entities.³⁵

After a few years of mandatory e-invoicing for Business to Government (B2G) transactions, the possibility for private businesses to link themselves to the SdI platform for B2B transactions was introduced in 2017. This option was, however, not met with widespread adoption. As it turned out, only a few companies were willing to participate on a voluntary basis, even though some incentives were provided. As the various efforts to attract the private sector to adopt SdI on a voluntary basis were unsuccessful, action was taken to make SdI a legal requirement.

In July 2018, the use e-invoicing via SdI for B2B transactions became mandatory for certain companies. Included among the sectors affected by the new legislation were subcontractors to the public sector working under public procurement contracts and companies selling petrol and diesel for road vehicles, excluding sales at roadside fuel stations. Shortly thereafter, in September 2018, the scope was broadened further and all invoicing of tax-free transactions between companies and consumers was required to be handled through SdI.

The most recent update on e-invoicing in Italy, undoubtedly making the most impact so far, requires all domestic B2B transactions and all business-to-consumer (B2C) invoicing to be done through SdI. Thus, as of 2019, e-invoicing is mandatory for all transactions towards taxable persons as well as non-taxable persons. Invoices submitted to SdI must be in the FatturaPA format and must be transmitted through SdI. Any invoices not filed in the specified format through SdI will not be considered for deductions of input VAT and will also be subject to penalties.

Before the extension of the requirements, the Italian government faced a lot of push-back from the private sector, but that was not the only obstacle. The Italian government's ambitions to enforce mandatory e-invoicing for B2B-transactions and to make SdI the main platform for transmitting all domestic invoices meant that they were also obligated to obtain a derogation from the EU VAT Directive from the European Commission. The European Commission granted this derogation from Article 218 and 232 in the Directive, which would otherwise have prevented Italy from implementing mandatory B2B e-invoicing.³⁶ Further, the derogation authorised Italy to accept e-invoices only for taxable persons resident in Italy, but the final scope of Italy's domestic law is broader than the derogation. As of 1 January 2019, e-invoices *must* be issued by Italian resident companies and with respect to non-Italian resident companies that are VAT-registered in Italy they *can* receive e-invoices. In the latter situation, the Italian supplier that issues the e-invoice must also issue a paper invoice (if so requested by the customer). Both the paper and electronic invoices will be valid for the purposes of recovering VAT.³⁷ The temporary derogation provided by the Commission is to be evaluated after a five-year period.

³⁵ Ibid.

³⁶ Wolters Kluwer (2018), *EU Commission Green Lights Italy's Electronic Invoicing Plans*. Viewed on 2019-11-21, available at: https://www.tax-news.com/news/EU_Commission_Green_Lights_Italy_Electronic_Invoicing_Plans___76347.html.

³⁷ Deloitte, *E-invoicing obligations apply only to resident companies*. Viewed on 2019-11-27, available at: <https://www.taxathand.com/article/9924/Italy/2018/E-invoicing-obligations-apply-only-to-resident-companies>.

It is not clear whether other countries within the EU would be granted a similar derogation as Italy by the European Commission if requested. The Italian derogation could have been an exception that was granted due to the specific circumstances, for example:

- The SdI platform had been operational and proven effective for B2G transactions, meaning there was a high degree of infrastructure already in place.
- There were a significant number of invoicing providers able to assist companies in fulfilling their obligations.
- Italy has been one of the countries with the largest VAT gaps in Europe. During 2015, the VAT gap was estimated at more than 26%, putting Italy at one of the highest VAT gaps percentage-wise and in nominal terms the largest in Europe.³⁸

A few years back, France considered implementing a similar system as in Italy but decided not to do so for various reasons. The French Finance Bill for 2020, which was formally presented on 27 September, codifies the plan to impose mandatory e-invoicing to also cover B2B transactions. The obligation would enter into force from January 2023. The proposed method would look similar to the Italian, i.e., a “hard clearance” model where sales e-invoices must obtain government approval before they are transmitted to the intended recipient. The e-invoices will be cleared via a governmental platform (Chorus Pro) which is already in place for B2G invoices. Interestingly, they also propose introducing pre-populated VAT returns which will be based on the submitted e-invoices.³⁹

Greece is another country where there are ongoing discussions on a B2B e-invoicing requirement. The discussions have hinted at suggestions that Greece should request a derogation from the European Commission similar to the one received by Italy.

Analysis of SdI

Extending the SdI requirements to include all B2G, B2B and B2C transactions was considered pivotal from a government perspective to reduce the large Italian VAT gap. It was also regarded as a means of increasing the transparency of public expenditure. In addition, the new infrastructure has enabled Italian authorities to get a better overview and to track invoices, since these are nowadays digitally available.

The platform for filing electronic e-invoices, SdI, has been operational since 2014. However, the major impact for businesses came with the regulatory requirements in 2019, when the use of SdI became mandatory for all B2B and B2C invoicing. According to studies made by the European Commission, the digital infrastructure in Italy is one of the weaker in the EU. Italy is, by index, among the bottom of the list in categories such as broadband connectivity, integration of digital technology and the use of internet services (online shopping and banking, among other things). Due to the low level of digital infrastructure in Italy it has been a real challenge for companies to adapt to these digital reporting obligations, especially for smaller entities. In order to compensate and to broaden the options for smaller entities to access the platform, a web portal and mobile version that allow for creating and receiving invoices in SdI have been created.

³⁸ CASE - Center for Social and Economic Research (2019), *Study and Reports on the VAT Gap in the EU-28 Member States: 2019 Final Report*.

³⁹ Deloitte, *2020 finance bill contains measures on corporate tax rate reduction*. Viewed on 2019-11-27, available at: <https://www.taxathand.com/article/12284/France/2019/2020-finance-bill-contains-measures-on-corporate-tax-rate-reduction>.

The mandatory reporting requirements from 2019 require a large amount of data on a granular level to be delivered to the SdI. This information was previously not required to be reported. An example is purchase order numbers, which have been added as a mandatory field to the digital reporting. The requirements also include data that is not always easily accessible within internal financial systems. In comparison with the B2G e-invoicing requirements in countries such as Spain, France or Sweden, SdI requires a great level of detailed information. These far-reaching requirements engendered a high level of dissent from the private sector when introduced: some entities even feared that the requirements would have such an impact on their business that they considered deregistering as Italian companies and moving their headquarters elsewhere.

One of the more time-consuming obstacles for entities adapting the Italian requirements was the mapping of data within the internal financial systems and creating a process where the required data is automatically obtained before submission to SdI. Entities with older legacy systems or complex system structures had to pull the relevant information from several sources and separate systems to obtain the data required to complete a compliant e-invoice. The implementation projects were in many cases very costly and time-consuming. However, once implemented, a positive implication of the new requirement is the benefits of having access to digitally stored invoicing data. Some Italian multinationals have even considered implementing strict use of e-invoicing in other jurisdictions, even if it is not mandatory.

The implementation of a hard clearance model in Italy, with an implicit requirement for all invoices to be approved via SdI before they are transmitted to the intended recipient, has had further consequences for Italian businesses. According to the rules, an invoice sent to SdI can be rejected within five days from submission. Thus, there is a possible five-day delay from submitting the e-invoice to SdI until it is either received by the recipient or rejected (and then subject to revisions leading to further delays). The five-day window has a significant potential impact on both the supply chain and cash flow for Italian taxpayers. For example, it is documented that some Italian companies have been forced to take loans and increase credit limits to create a cash flow buffer since they are now issuing outgoing invoices slower than before SdI became mandatory and thus getting paid later, impacting cash flow. In addition, the Italian Revenue Agency has so far not always been able to stick to the five-day limit, which has created further delays in the process.

Another observation from the implementation of SdI is that it is not always certain who is responsible for transmitting the e-invoice to the recipient after approval. As a main rule, the Italian Revenue Agency has the responsibility, but there are exceptions. In B2C transactions, the delivery is not guaranteed by the SdI platform. As consumers have no legal requirement to provide SdI with a *Codice Destinatario* or to register a certified email (PEC) to which the invoice can be routed, the information needed for automatic transmission through SdI is regularly insufficient. When there is no *Codice Destinatario* or PEC available, the responsibility for delivery of the e-invoice to the consumer passes to the seller.

Where SdI is headed

As of 1 October 2019, the Italian government has increased the scope of SdI and made B2G eOrdering and eFulfilment a mandatory requirement. All suppliers to governments are required to handle orders electronically. Certain details provided in the eOrder also must be included in the eInvoice. Unless both the order and invoice have

been sent through SdI, the public authority is prevented from settling the invoice. The same requirements apply to foreign counterparties dealing with Italian authorities, and thus non-Italian suppliers also need to connect to SdI to be able to transact with Italian public authorities. At the same time, some new simplification measures have also been put in place.⁴⁰

In Spain, the implementation of real-time reporting enabled Spanish authorities to analyse invoice data and match it with VAT reports to detect fraud. Beyond the approval process handled by the State General Accounting Department we have so far in Italy not seen a lot of audits based on the data collected similar to those in Spain. The public authorities receiving the e-invoice are responsible for archiving them, which is not the case for SdI and Italy. In practice, this currently limits the possibility to centrally review historical data that has passed through SdI. So far, when invoices are declined it is mostly due to formal reasons, such as missing certain data points, rather than actual content of the invoice or the underlying tax treatment. One reason for this may be that the SdI as a platform reduces the need for monitoring fraud. Going forward, there are considerations of creating a database to which the banks will be connected, for storage of all information in relation to orders, invoices and payments for the use of the National Anti-Corruption Authority. Another area the Italian tax administration is currently looking into to start providing pre-populated VAT returns to taxpayers in future years, based on the data they collect via SdI. This is expected to become reality in Italy by 2020 for transactions carried out after 1 July 2020 where the Italian authorities will draft both input and output VAT ledgers as well as quarterly communications on periodical VAT settlement and an annual VAT return for businesses established in Italy. Taxpayers will be able to review and make changes to the pre-populated drafts.⁴¹

SdI is a step towards a broader digital infrastructure for electronic delivery of financial data. It is an incentive for entities to digitalise their financial data in order to simplify the e-invoicing submission to SdI. A better position in the digital economy could be an additional side effect. However, it is still too early to evaluate the effectiveness of SdI in terms of lowering the VAT gap and detecting fraud.

Are other countries likely to follow Italy?



Greece and France are currently evaluating whether they should follow Italy's clearance model approach to e-invoicing.

⁴⁰ <https://www.taxathand.com/article/11916/Italy/2019/Simplifications-made-to-VAT-e-invoicing-procedures>.

⁴¹ The details can be found in Law Decree no. 124 of 26 October 2019.

The Italian system is dependent on a temporary derogation from EU law that is subject to review by the Commission after five years. The uncertainties vis-à-vis the derogation may have stalled the immediate spread of similar implementations in other EU member states. Even so, it appears that there is a political will to copy the Italian blueprint in several EU countries, such as Greece and France. Countries outside the EU including Turkey, Ukraine and Russia have implemented similar clearance models and evaluations are also ongoing in Jordan, Saudi Arabia and India.

4.2 Spanish SII Real-time reporting

Implementation of the Immediate Information System in Spain

As of July 2017, it is mandatory for certain taxable persons to send detailed information of invoices issued electronically to the Spanish tax authority. The requested data should be filed within four working days of dispatch or receipt. The “Immediate Information System” (SII) is an obligation that affects approximately 63,000 Spanish taxpayers. It applies to resident and non-resident entities that file monthly VAT returns and that meet the definition of large enterprises for VAT purposes (turnover in Spain over EUR 6,000,000). It is also applicable to entities that apply the “REDEME” (special monthly VAT refund scheme) and entities that belong to VAT Groups.⁴²

The first public announcements regarding the SII requirement came in 2015 with the intention of having a 12-month implementation period from publication until the rules entered into force. However, in practice when the regulations were finally published in December 2016, Spanish entities were only allowed six months of preparation before the new reporting requirement was enforced in July 2017. The regulations included invoices issued from 1 January 2017, but data related to the first six months of 2017 was allowed to be submitted until 31 December 2017. Data on invoices issued after 1 July 2017 was permitted an eight-day filing period. After January 1 2018 this period was reduced to four days.⁴³

The short implementation period was a challenge for both tax authorities and affected entities, in having to quickly adapt to a reporting requirement where invoices needed to be reported on a near real-time basis from previously only filing monthly and annual tax forms. The SII-requirement comprises filing of invoice data in XML-format via web services, and not actual invoices. The XML-schema for SII and the XML-file can be generated either through the company’s ERP system, based on the technical schema provided by the Spanish tax authorities, or by an external software supplier. In practice, the SII-requirement made some Spanish taxpayers’ dependent on third-party vendors to upgrade their systems. Another option was to acquire plug-in software that was able to collect data from the ERP system and convert it to the required format. Typically, the more customised the financial systems, the more difficult the adaption to new reporting obligations was. For large companies that have a wide variety of system vendors in their IT architecture and where invoices are issued from several different systems for the same legal entity, adaptation of SII was particularly costly and created a large amount of additional work. Many of the larger entities were not able to handle the implementation without involving external tax expertise for analysing invoices, tax codes and ERP settings.

⁴² Agencia Tributaria, *New VAT management system based on Immediate Supply of Information*. Viewed on 2019-11-21, available at: https://www.agenciatributaria.es/AEAT.internet/en_gb/Inicio/Ayuda/Modelos_Procedimientos_y_Servicios/Ayuda_P_G417_IVA_Llevanza_de_libros_registro_SII/Informacion_general/Nuevo_sistema_de_gestion_del_IVA_basado_en_el_Suministro_Inmediato_de_Informacion.shtml.

⁴³ Ibid.

The Spanish tax authority started a pilot during the first half of 2017, where a sample of businesses attended meetings along with some of the main software companies.⁴⁴ During this pilot the business sector had the opportunity to raise concerns regarding practical issues they were facing and to request clarifications from the tax authorities. The SII implementation gave rise to a wide variety of questions. Even simple issues, such as the quite fundamental question of what date to report for SII purposes triggered a long discussion as, in most large ERP systems, several dates are normally registered for different purposes for each transaction.

Analysis of SII

Before SII entered into force, the standard tax reporting obligations were to file these once a month or quarterly, when the reporting period had ended. This meant that in practice there was usually time after the end of the period to consolidate the VAT-related data and make necessary corrections before submitting the returns to the Spanish tax authorities. There would usually be a window of 20 days after the end of the month to prepare the data before it was due to the tax authorities. With SII and the new obligation to file invoice-data in near real-time basis, significant workflow changes were required.

With the introduction of the SII, data not previously required to file VAT returns was made obligatory to submit to the tax authorities. Though this data may have been available in the ERP systems of the affected companies, it had not previously been required for reporting purposes. This led to a lot of work for Spanish businesses to locate the correct data and restructure workflows to incorporate the data in automated reporting workflows.

During the first six months after the regulations entered into force the tax authorities kept, in the eyes of the taxpayers, a low profile. There were few requests or penalties imposed (even regarding late fees that may have been applicable). After the initial six-month period the tax authorities subsequently began to request information related to discrepancies between the data provided in SII and the data provided in the actual VAT returns.

A few years have now passed since Spanish taxpayers filed their first SII-reporting to the Spanish tax authorities. Our experience is that taxpayers are still struggling to reconcile data filed in SII with the same data filed in the VAT return. Many companies prepare their VAT returns based on information from the ERP system, not by using the information they initially provide to the tax authorities in SII. Since SII requires a specific reporting format for the information and specific tax codes, there is usually a process of translating data from the ERP before this data can be filed in the XML format required by SII. Due to the two different formats required for the monthly VAT returns and the SII, discrepancies may appear between SII filings and the data collected from the ERP system for VAT reporting.

Currently the Spanish tax authorities review the data provided, send notifications and inquiries to companies and inform them of mismatches that they have found. However, they do not always explain what the mismatch refers to. One clear effect of SII is that it does allow the tax authorities to respond with more immediate action on discrepancies that previously had not even been possible to detect. Having to respond to these queries, however, has led to additional costs for Spanish businesses. Further,

⁴⁴ Ibid.

the queries are often focused on formalities and whether all the relevant data has been reported or not, rather than on actual errors in taxes due.

One of the benefits SII was supposed to provide was faster refund proceedings for VAT, made possible by nearer real-time reporting. However, in practice the result has in some cases become the opposite. In instances where companies fail to report input VAT in the correct period in SII, then later include the input VAT in a different period as deductible VAT, they are frequently being denied VAT deductions by the tax authorities. This formalistic approach by the Spanish tax authorities has led to denial of VAT deductions until the invoices have been correctly reported through SII for the same period (even though the deduction was indeed correctly reported in the VAT return as such), creating additional work and costs for Spanish taxpayers

In practice, two types of penalties have so far been imposed on companies failing to report correctly in both SII and VAT returns. Fees for late filing or doing things wrong that are regulated in the legislation in relation to delayed reporting, incorrect reporting, incomplete reporting and failure to report, for example. In addition, there is the increasingly common “indirect penalty” linked to the denial of VAT deductions, until a correct report has been filed both in relation to SII as well as the VAT return. In some cases, this is having significant impact on the businesses’ cash flow.

The availability of invoice data means tax authorities have greater opportunity to review Spanish companies on a more granular level. Where authorities previously have had to review only samples of data (that were obtained on request) they are now able to perform reviews on a much larger dataset, in many cases without the need to request further data from taxpayers.

To conclude, the experience of implementing SII in Spain from a taxpayer perspective has not been pleasant. The main challenges have so far been linked to the short time-frame for preparation and the costs related to adapting systems as well as changing internal processes. The Spanish tax authorities seemed unprepared for the challenges the taxpayers had to face, and the advice they provided during the implementation time in some instances changed during the process, if it was provided at all. It seems the short implementation time was mainly due to political reasons, as both the taxpayers and the tax authorities would have preferred a longer period to implement.

Further, numerous normal business streams and transactions, including providing discounts and rebates based on earlier invoicing were not considered from the start, but had to be discussed and managed by businesses and authorities very late in the implementation period to make sure the reporting requirement could work properly in practice.

When talking to Spanish taxpayers today, one conclusion is that the work of adapting the business to the SII requirements has been very demanding and led to a complete change in how much of tax-related reporting is done. If it was up to Spanish businesses, many of them would have preferred not to have the obligation.

Where SII is headed

One of the early ambitions with implementing SII was to be able to provide taxpayers with pre-populated VAT returns, similar to what is already being done in Spain with income tax returns for individuals. Even though this has not become a reality as of yet,

it is likely to be where Spanish tax authorities are headed, and without the reporting requirement of SII this would most likely not be possible.

Beyond the ambitions of pre-populated VAT returns, SII may have opened interesting possibilities for the tax authorities to use the data provided by taxpayers to reconcile with other financial reporting beyond VAT. Generally, the data included in intercompany transactions for example is often included in not only one but multiple tax returns; by leveraging the data provided in SII this can then be reconciled with other financial reports filed by the relevant parties.

Furthermore, the data provided by taxpayers can be used to monitor fraud in small entities despite their being exempt from the filing obligation. Since taxpayers within the scope of SII reporting are obligated to report all their invoices, the tax authorities indirectly end up with a lot of data relating to transactions with small entities. Just as the SII data can be used to reconcile with taxpayers' own VAT returns, the data can also be used to reconcile with the financial reports filed by the other parties on which the tax authorities indirectly obtain data.

SII and real-time reporting have also had a major impact on the way in-house tax teams work in Spain; from previously having a reactive approach, using programs such as Excel to amend and consolidate data after the end of the month, to instead working as a more integrated unit of the business, acting proactively by making tax decisions through configurations in ERP systems and leveraging tax data.

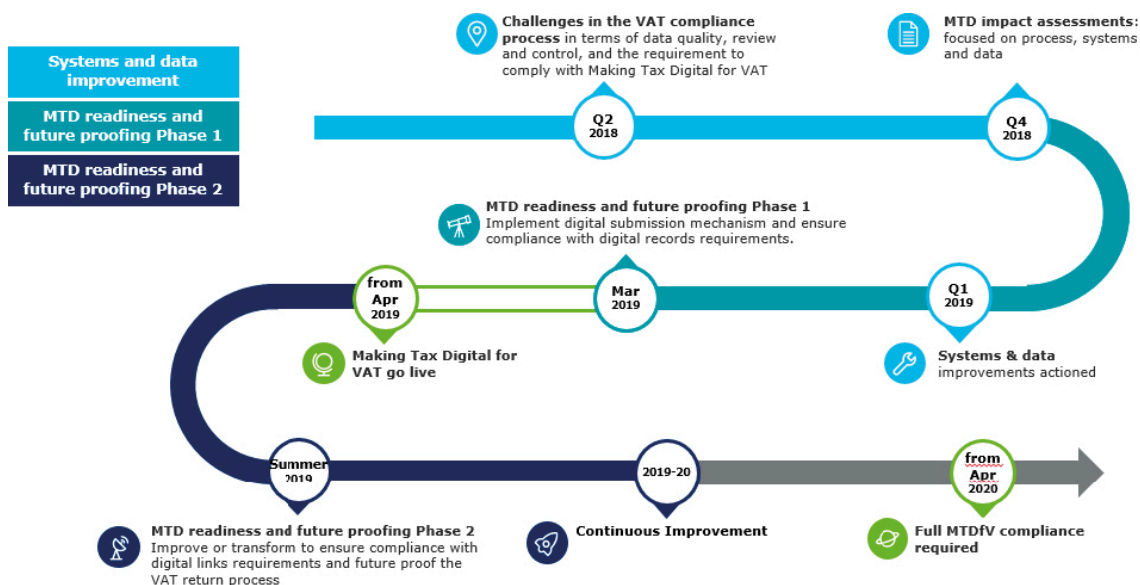
4.3 e-filing in the UK

Making Tax Digital

Making Tax Digital (MTD) is a broader government initiative across all of tax driven by the HMRC in the UK. HMRC began its digital transformation journey in 2013, with the goal of becoming one of the most digitally advanced tax authorities in the world. MTD is a key part of HMRC's vision to make it easier for businesses to get their tax right the first time and keep on top of their tax affairs. Currently, every UK business has their own digital tax account, and the functionality is being regularly expanded and improved upon. HMRC's ambition is to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more efficient and easier to comply with. It is argued that digital records and updates to HMRC directly from the software will reduce the amount of avoidable errors businesses currently make.

Similar to the development in other countries, the first phase of MTD has been focused around indirect tax and VAT. The MTD initiative to improve VAT compliance was initiated during a turbulent time for UK businesses, but even in the face of Brexit and other geopolitical challenges HMRC persisted to push on with the legislative requirements and at present any VAT-registered business with a taxable turnover over £85,000 must follow the MTD requirements for VAT.⁴⁵

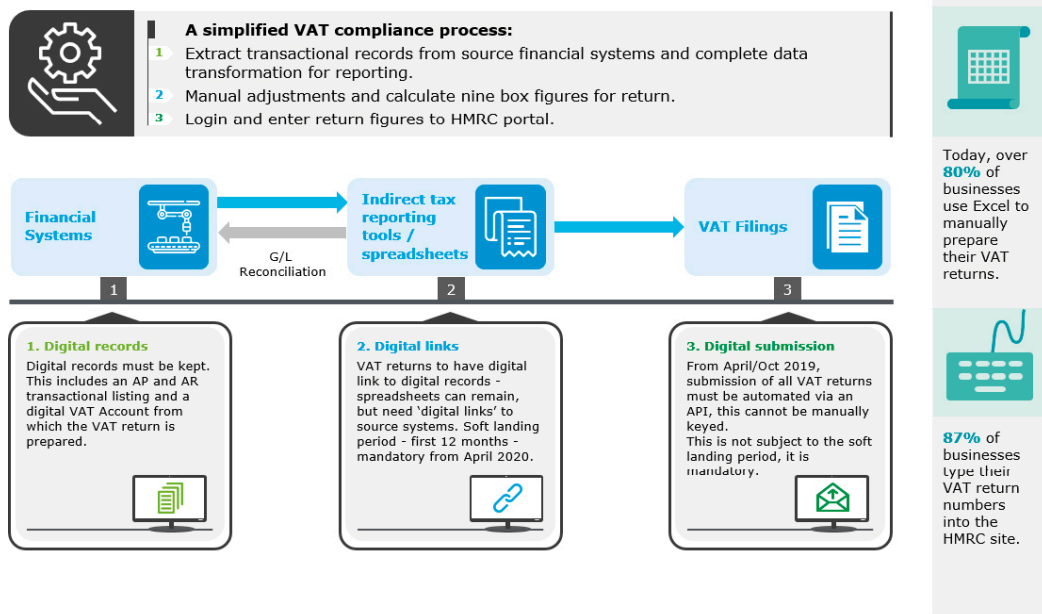
⁴⁵ HMRC (2019), *Keep digital records for Making Tax Digital for VAT*. Viewed on 2019-11-21, available at: <https://www.gov.uk/guidance/keep-digital-records-for-making-tax-digital-for-vat>.



The introduction of MTD led to substantial efforts for tax teams in UK businesses to make sure they were compliant in relation to the new rules.

VAT returns in the UK are submitted through an online portal on a quarterly basis and consist of nine boxes for aggregated VAT-related data. Even when it comes to typing numbers into boxes in a web portal the level of compliance and level of mistakes made earlier was understood to be greater than for other taxes.

The legislation put in place has not been designed to fundamentally change the typical compliance process for taxpayers. Data is still typically retrieved from financial systems, moved into spreadsheets with an offline element of performing calculations, consolidations and validations in order to create a VAT return. However, the requirements aim to remove the elements of the process that are considered opaque and difficult to track in retrospect. The goal of the initial phase is to create a VAT process for companies that is easy to audit by having a clear flow of data from transactions to the actual VAT return. The three key areas recognised by the HMRC as categorised in MTD are: digital records, digital links and digital submission.



Digital records, digital links and digital submissions are the three key areas in MTD, Deloitte 2019.

Digital records

Digital records concern storage of transactions and VAT-related data. Everything of relevance for VAT filing must be recorded digitally. Conversely, this means that any data that is irrelevant to the VAT return does not need to be stored digitally and the same goes for any adjustments of VAT due.



Taxpayers must be using an accounting system or at the very least digital spreadsheets to record the transactions occurring for accounting purposes. This requirement primarily impacts smaller businesses that previously have not used digital records for VAT purposes. However, the mandate is applicable to all UK businesses, so a sole proprietorship with its VAT process stored in a notebook is no longer going to be accepted. Digital records are a legal requirement as of 1 April 2019. However, for taxpayers considered to be in a category of complex VAT, the requirements were postponed until 1 October 2019.

Digital links

HMRC aims to improve the way businesses organise the flow of data from transaction to submission through digital links. For any taxpayer (whether using spreadsheets or any other system) there needs to be coherency and transparency regarding the flow of data starting from the financial source to the final VAT return.

The HMRC has given examples of acceptable digital links as well as unacceptable links. Any flow of data that is opaque and lacks an audit trail would likely be unacceptable, as would any manual rekeying of data or large amount of copying and pasting without any sort of formulas or links. The same goes for systematic errors in financial software that is constantly outputting errors that need to be reversed. A typical VAT process contains elements that are difficult for tax authorities to trace, such as spreadsheets containing pivot tables where reviews are done by eyeballing certain transactions. Digital links aim to remove those hard-to-track data flows.

From HMRC's perspective there is tolerance for genuine technical adjustments or genuine transactional errors, but not for those that are systematic. Such errors need to be automatically reversed.

 Acceptable links	 Unacceptable links
<ul style="list-style-type: none"> • API transfer • Linked cells and macros in spreadsheets • Emailing of spreadsheets with digital records e.g. to an agent • Interfaces, middleware and automated data transfer • XML, CSV import and export • Download and upload of files • Running reports and downloading information • Transferring information on portable devices and physically giving this to an agent for example • Manual adjustments into the VAT return – totals required only when the financial system has closed, e.g. accrued input VAT • Standard templates to collect information from entities 	<ul style="list-style-type: none"> • Transferring data between different parts of an accounting system by hand - no materiality threshold for this • Cutting and pasting of information between functional compatible software • Re-keying large amounts of information • Stand-alone spreadsheets • Stand-alone API software • VAT return adjustments not reflected back in the system of record • Re-keying of data supplied in email or word documents • Generally, all other ways of transferring data that are not covered in the Acceptable links box opposite

Examples of acceptable and unacceptable digital links for MTD purposes.

HMRC has provided some guidance on what companies can do with their VAT-related data, most of which is centred on automation of processes, semi-automation or properly using formulas to create a robust process and track where adjustments have been made. They also recognise that for complex business the digital links component will require some work to embed in the current processes. Therefore, the mandatory legal requirement for digital links was postponed for an additional twelve months until April of 2020. For companies that are part of a deferral group, digital links become mandatory on 30 September 2020.⁴⁶

Digital submission

The UK VAT return includes nine boxes with different aggregated values, which reach the tax authorities through digital submission. If that data can be retrieved from the underlying accounting system, taxpayers need not use the web platform, but rather submit the data through use of HMRC-provided APIs directly through the software. For submission, taxpayers can either use a compatible software package that allows for record keeping and submission directly or use bridging software that allows for extraction of data through spreadsheets and delivery to HMRC.⁴⁷ In a survey by Deloitte in the UK it was found that 80-90% of large corporations were using Excel in some part of the VAT process. Thus, the information needed for VAT returns is to a large extent found in spreadsheets instead of accounting software. As companies no longer type data into the HMRC-provided web portal because of the digital submission requirement, the risk of human error arising from the manual process of rekeying information from spreadsheets before submission has diminished.

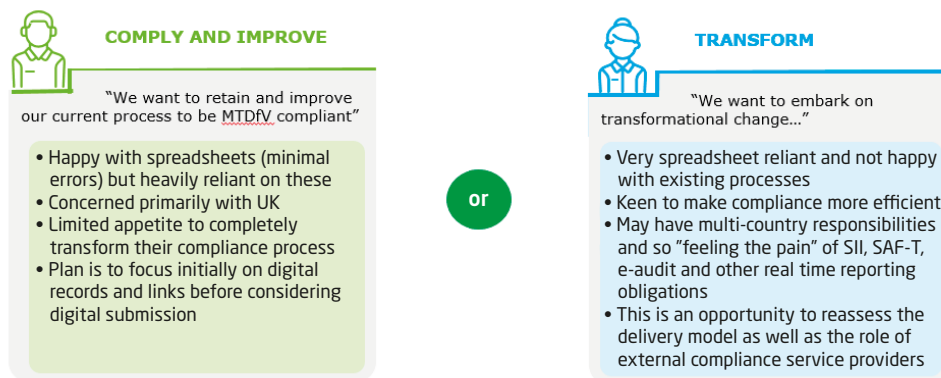
The overall goal of MTD is ultimately for companies to have a direct flow of financial data through digital records and digital links from their financial systems to filing. For many businesses, there is currently still a need to compile the relevant data before submission, a process typically done in spreadsheets.

Response by trade and industry

During the implementation period of MTD it became apparent that there were two different approaches being adopted by businesses. The first group of companies were comfortable that their current processes needed no major overhauls due to the MTD requirements. Their approach was to improve current processes merely to be compliant with the new regulations. Another group saw the new requirements as a reason for a more fundamental transformation of the compliance process. However, the immediate challenges for the business sector have primarily been time and budget constraints linked to new process and software implementations where tax functions are dependent on IT and other stakeholders. Because of the time constraints, many businesses focused on the digital submission requirement to begin with and postponed the work on digital links and records until a later stage. Software providers have provided SaaS solutions that enable digital submission through spreadsheets, providing a digital filing element to the processes that are already in place for taxpayers. It is likely that a large portion of UK businesses will need to invest in software and processes to fulfil MTD requirements in the next 12 months.

⁴⁶ HMRC (2019), *Keep digital records for Making Tax Digital for VAT*. Viewed on 2019-11-21, available at: <https://www.gov.uk/guidance/keep-digital-records-for-making-tax-digital-for-vat>.

⁴⁷ HMRC provides a list of vendors providing software for submission: <https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-vat>.



A study performed by Deloitte in the UK shows that businesses are responding to the changes from MTD in two different ways.

Before and during the implementation of MTD, HMRC has held consultations with software providers and business confederations. The major aim of these consultations was to make sure that software providers were able to supply the required technology for compliance.

Analysis of MTD

The HMRC's approach is that businesses are expected to respond to the mandate by implementing the necessary changes in process, technology or otherwise. An interesting aspect of the MTD initiative in comparison to models in other countries is that unless a taxpayer is audited only a limited amount of data is directly visible to HRMC. HMRC is effectively trusting businesses to comply with the requirements of MTD and taxpayers will only be under audit if they recognise that a business is not complying or if mistakes are made in such a way that it appears likely that the underlying requirements are not met.

As with the implementation of SII in Spain, MTD has been a burden for businesses and created a lot of noise in the context of other ongoing projects, since UK taxpayers have been working on business configurations due to Brexit and other constraints at the same time. However, larger corporates operating on an international scale have been relatively understanding, as they recognise the requirements imposed by MTD as an international trend where the UK was not the first country to act and that the requirements are not as far-reaching as they could have been.

During the implementation process there was uncertainty around the type of technical adjustments that would be accepted by HMRC. It has, however, become increasingly clear that the tax authority will not put any final restrictions on how companies perform some of the more complex calculations on which the final VAT figures are based, but there is an understanding that the flow of information needs to be of high quality, i.e., the basic hygiene of digital tax reporting is expected to be fulfilled.

Where MTD is headed

By digitalising VAT reporting through digital records and digital submission there is an assumption that the VAT gap will be reduced. When everything exists in digital records, there is less risk for "things slipping through the cracks" and being, quote unquote, "forgotten" about. Tax avoidance would also require a higher degree of deliberateness. The standardisation that comes from using digital records should

provide an improvement in the quality of data collection. There is also an assumption that moving to digital submission decreases the likelihood of accidental mistakes caused by human error, such as accidentally typing in incorrect figures.

MTD in some ways contrasts what is happening with SII in Spain for instance, where they are moving straight from digital records to submission. Spain is working with the assumption that the information for reporting is about to leave the building or has already left the building before there is a chance to validate it. Taxpayers therefore need to have a high level of confidence in their financial systems and instead of performing validations and consolidations, the focus needs to be on the ability to quickly visualise data in order to spot mistakes before the information reaches the tax authorities. This is not the case in the UK.

Another interesting difference between UK and Spain is the amount of data submitted. Currently, HMRC receives no more data than before the mandate, but the VAT process is (hopefully) more robust. In the short term, no further changes in the requirements are expected, but the MTD mandate has further increased the likelihood of more transactional information being asked for at later stages in the UK as well, which is not currently focused on data collection.

4.4 e-Filing in Poland

Implementation of JPK in Poland

In March 2016, the Polish Ministry of Finance published the final version of JPK, a Standard Audit File (SAF-T) to be used for electronic reporting in Poland. Later the same year, on 1 July, a requirement to file a SAF-T file on a monthly basis was implemented for large companies. As of 2018, the requirement includes all businesses. The new monthly SAF-T filing obligation doesn't relieve businesses of the obligation to file monthly VAT returns.⁴⁸

When JPK first became a point of discussion, indicators pointed towards the JPK file being based on the OECD standard of SAF-T. However, there are several differences between the final schema and the standard proposed by the OECD. For one, the JPK is not a one-to-one SAF-T file; it instead consists of seven different files. For larger companies five of the seven files below are mandatory; the two remaining are for smaller businesses (JPK_PKPIR and JPK_EWP).

- VAT transactions (JPK_VAT)
- Accounting records (JPK_KR)
- Bank statements (JPK_WB)
- Warehouse (JPK_MAG)
- VAT invoices (JPK_FA)
- Tax revenue and expenditure accounting (JPK_PKPIR)
- Revenue records (JPK_EWP).

The five files that are mandatory for large companies consist of one file that is submitted just like a VAT return, as a monthly obligation (JPK_VAT). The remaining files are submitted only on request. The JPK_VAT contains much of the same information that

⁴⁸ Deloitte (2016), *Jednolity Plik Kontrolny (JPK) – Analysis of the structures*. Viewed on 2019-11-21, available at: <https://www2.deloitte.com/pl/en/pages/tax/articles/tax-alerts/detailed-analysis-of-the-final-version-of-jpk-structures.html>.

the regular VAT return does, but whereas the VAT tax return contains summarised information on VAT-related data, the JPK_VAT is a line-item report that presents data on all included transactions.

Analysis of JPK

As opposed to Spanish or Hungarian requirements, where reporting is done on a near real-time basis, the filing requirement in Poland concerns a specific previous period. Thus, if authorities request information from a taxpayer, the taxpayer has a certain timeframe to retrieve and consolidate data before it is due to the tax authorities.

As in many other countries, the timeframe between the publishing of the final file schemas for reporting and the enforcement of obligations was short. A large portion of Polish taxpayers did not have enough time to adjust their ERPs or financial systems to facilitate a completely automated flow of information in accordance with JPK. This put pressure on software vendors to adapt their systems quickly to enable businesses to retrieve and file the requested data. However, JPK does not involve any sanctions for late filing or inconsistent data. The tax authorities simply inform the taxpayer, typically via email, with a specification of the detected errors.

Where JPK is headed

Polish taxpayers and the Polish tax authorities have had a couple of years to adjust to the new landscape of digital filing. Additional changes have already been suggested. According to a recent proposal from the Polish tax authorities, one single consolidated monthly SAF-T file (JPK_VDEK) will replace the JPK_VAT and regular VAT tax returns.

In addition to the already mandatory information requirements, the JPK_VDEK includes an obligation to file information on commodity codes (CN) for the services and goods included in that period's transactions. It also contains a requirement to state the date and form of payment. The new obligations are expected to enter into force in early 2020 but there are still uncertainties around the obligation and thus less possibilities for taxpayers (and software vendors) to begin the appropriate preparations.

The obligation to include CN codes has been criticised from the business side because CN codes are not part of regular system updates. Consolidating this information with other transactional data is a difficult task. In addition, the form and date of payment is not always easily obtainable. For larger businesses that are dependent on automated methods for VAT reporting, there are concerns that the additional obligations will add a manual element in the consolidation process of required data. There is also a discussion on the categorisation of Polish CN codes. The 19 codes that are currently suggested are not suitable for all possible services and goods. This may imply that certain transactions will be difficult to report as there is no residual "other" category. It is unlikely that the JPK_VDEK will be introduced without having first resolved these issues.

Norway, which also uses the SAF-T file for reporting purposes, is currently looking into incorporating the corporate income tax return to their file. Although the Polish tax authorities have not mentioned any such ambitions, the JPK requirements stretch beyond the scope of VAT. The information includes accounting data that may very well be used by the tax authorities to draw conclusions regarding corporate income tax returns. However, just like in the UK, VAT is currently the main priority for the Polish authorities.

With JPK_VDEK also comes the introduction of sanctions for failure to comply. Each error found in the JPK_VDEK file may be fined up to 500 zloty (approx. EUR 125) unless the error is corrected within 14 days. For large companies with large numbers of transactions, a technical issue with the XML file could potentially become very costly unless the file is corrected within the given timeframe.

Split payments

Another measure taken by the Polish government to increase VAT compliance and make the VAT system more fraud-proof is the introduction of a split payment mechanism. The split payment mechanism means that payment of the VAT amount is separated from the payment of the tax base. Typically, the invoice is paid to two separate bank accounts. In practice, the buyer will make a single payment that is divided by the bank and placed into separate accounts.

Split payment was introduced in Poland on 1 July 2018. It includes all VAT-registered businesses but is only mandatory for B2G transactions. In a B2B transaction, it is the buyer's decision whether to apply it or not and it is currently not widespread. Regardless, by now almost all VAT-registered businesses in Poland have two separate accounts created for them by their bank. The VAT dedicated account is where the VAT amounts would be deposited, and any funds paid to this account are reserved for VAT payments and cannot be used by the company for any other purposes. Thus, if a company (currently mainly applicable to public enterprises because of the B2G requirement) has once received split payment funds, it is likely that it will continue using split payments when paying invoices in order to be able to use the funds in the VAT account.

The split payment mechanism, under the optional scheme, is not commonly used for B2B sales. However, a draft bill amending the VAT provisions was published in May 2019. The new legislation enters into force in November 2019 and requires mandatory use of the split payment mechanism for certain goods and services. The European Commission has granted Poland a temporary derogation from the EU VAT Directive until February 2022 in order to implement the requirement. The compulsory split payment applies to payments of purchase invoices if:

- a single value of these payments, regardless of the number of particular payments included, exceeds PLN 15,000 (approx. EUR 3,500) or its equivalent in a foreign currency, and
- the transaction involves goods or services listed in the newly introduced Appendix No. 15 to the VAT Act. In principle, this appendix includes goods and services currently subject to a reverse charge mechanism or joint and several liability. Additionally, the mechanism is applicable to sales of coal and coal products, parts and accessories for motor vehicles and electrical machines including spare parts and accessories.

Transactions previously subject to a local reverse charge mechanism or not exceeding the PLN 15,000 threshold should be settled under general VAT rules. The buyer, however, may still apply the split payment mechanism to these transactions on a voluntary basis.

The obligation to apply the split payment mechanism is also extended to foreign entities registered in Poland for VAT purposes. In practice, this imposes an obligation on these entities to open and maintain a bank account in a Polish financial institution, to which a special VAT account is assigned. Documented costs of opening and maintaining a Polish bank account for this purpose are reimbursed quarterly upon request.

The split payment requirement for B2B sales comes with an introduction of penalties for failing to comply. A taxpayer that fails to apply split payment for a transaction included under the mandate will entail an additional charge of 100% of the VAT value of the invoice. Taxpayers who fail to include the wording “split payment mechanism” on the invoice will be liable to the same penalty. In addition, a new criminal offence has been included in the Polish Fiscal Penal Code associated with the failure to apply the split payment mechanism, for which a fine of up to 720 daily rates may be imposed. Furthermore, from 1 January 2020, split payments will also have an impact on income taxes as it will no longer be possible to deduct a cost for income tax purposes unless the payment complied with the split payment mechanism.

4.5 SBR in the Netherlands

Implementation of SBR in the Netherlands

The Netherlands currently has at least 14 active XBRL implementations, ranging from financial reporting in the banking sector to the filing of annual reports, as well as filings towards the tax agency. The implementations are part of a larger SBR (Standard Business Reporting) strategy to move the trend of all reporting in the same direction. A shared strategy and framework (syntactic and semantic interoperability and shared taxonomy) comes with certain synergy effects. Small companies in the Netherlands can basically file their corporate income tax return by filing the financial statements that were filed with the Dutch Chamber of Commerce (KVK), as both Netherlands Tax and Customs Administration (NTCA) and KVK have adopted SBR. As a result of using the same taxonomy, analyses of data can be shared between the authorities, which reduces the workload for each separate authority.

In order to make the most of the possible synergy effects a taskforce has been formed with the objective of finding new use-cases for cross-referencing data between different authorities and finding discrepancies in reporting. Within Transfer Pricing, for example, the taskforce has detected a possibility of using triangulation of data from customs duties, VAT and Transfer Pricing documentation to find incorrect reporting. Furthermore, using data from different sources (such as annual reports) the SBR approach makes it possible for authorities to use benchmarking as a method for scrutiny of reported data. By studying gross margins in a specific group of companies or in an industry, authorities now have the means to detect outliers and make risk assessments, to base an audit plan on for instance.

The use of SBR is not fully implemented in all reporting requirements in the Netherlands, leading to mismatches when data is reported to more than one receiving party adhering to different taxonomies. For large corporations, one source of mismatches is that reports may be prepared and filed by different departments within the reporting entity. Another example is data filed by banks and insurance companies to the Dutch National Bank that gives rise to mismatches when compared to data that the same entities report to the NTCA. Such discrepancies are exacerbated by insufficient standardisation and uniformity in taxonomy and reporting format. Historically, data sharing between Dutch authorities has been prevented by legislation. The introduction of certain legal exceptions to enable data sharing has seen increased incentives for the use of a shared taxonomy based on SBR.

Challenging the chain

The Netherlands proves that early adoption of SBR comes with both challenges and opportunities. In the early days of discussions on the implementation of SBR, when the concept was less known, businesses and industry representatives had a hard time foreseeing the implications of the SBR project as there were few role models internationally. Industry representatives were thus unable to challenge the legislative actors and provide input throughout the process. The effect of this was that the taxonomy was published as planned, from a governmental perspective, according to the original proposal outlined.

The interest of the NTCA is not primarily to achieve tax compliance by collecting large amounts of data, but rather by performing checks and controls closer to the source (e.g. in taxpayers' workflows). One way of doing this is through providing code that could perform checks and controls directly in the companies' financial (ERP) systems. Privacy and security (data integrity) are the two primary reasons for wanting to perform checks within taxpayer's workflows as opposed to an approach where data is assembled and kept by the authority.

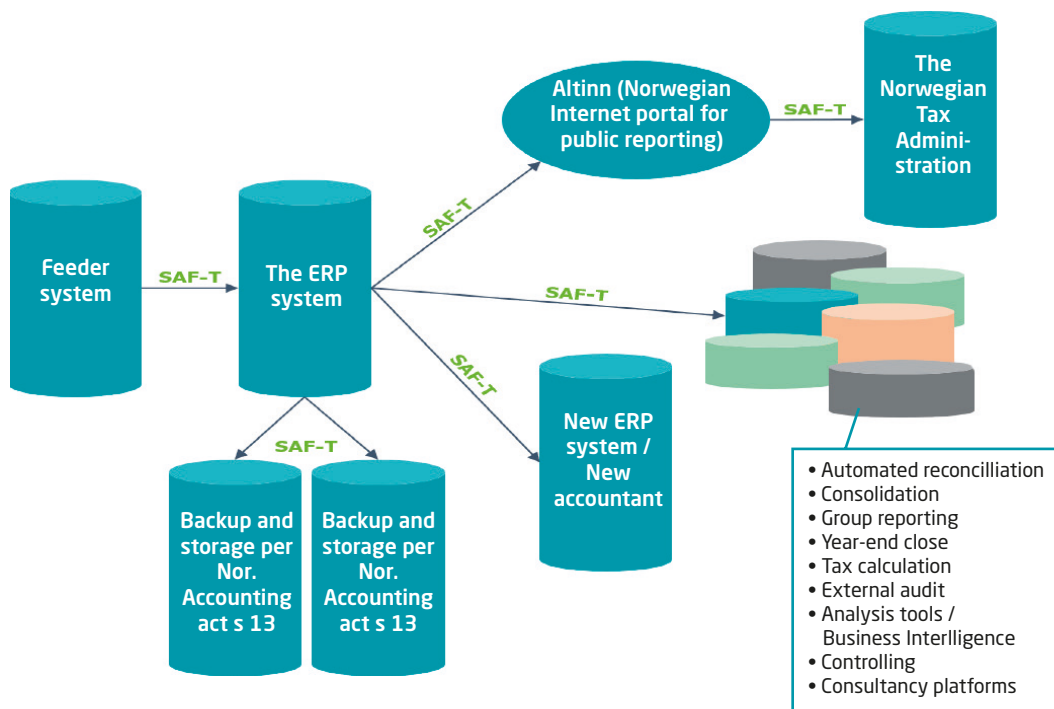
Beyond exploring synergy effects gained by SBR and a shared taxonomy for financial reporting, the NTCA is also closely monitoring technological progress and taxpayers' adoption of ERP and financial software. The NTCA avoids strategies that rely heavily on current technology and current providers in order not to impact the market negatively by creating solutions that favour a certain group of companies.

4.6 SAF-T in Norway

Implementation of SAF-T

Historically, the main objective of auditing a business for tax purposes has been to determine if correct tax has been paid at the right time in accordance with domestic tax legislation. However, electronic data processing audits, also called "e-audits," generally have two objectives. The first is to review the entity's information systems to evaluate the integrity of data and potential security weaknesses. The second is to undertake a tax audit based on data analytics. In Norway, bookkeeping legislation requires companies to maintain certain specifications prior to tax audits, including, for example, opening and closing balances for each customer, periods, names and addresses. Historically this has been a protracted process and the Tax Authorities together with the companies could spend 3-9 months of preparation before each audit, just to agree on data elements, protocols, means of transferring data, etc. In Norway, this initiated a discussion on standardising how audit data is transferred and in 2016 the application of SAF-T was announced. At the time, the suggested mandatory implementation was 2018.

After deciding on SAF-T, the Norwegian government held a hearing process to which Norwegian companies responded en masse. In summary, the business sector considered the change in reporting obligations too extensive and expressed that the timeframe was too short and that the adaptation would be both time-consuming and expensive. This caused a revision of the proposal and currently SAF-T is optional. However, according to the plans SAF-T will become mandatory from 1 January 2020. To begin with, the SAF-T file will only be required upon request from the tax authority.



Examples of the multiple uses of the data in a SAF-T file.

SAF-T is a significant change that enables the tax authority access to data they already have the legal right to obtain in a standardised format. The challenge for taxpayers is to make the information readily available on a continuous basis. Many Norwegian businesses are involved in a process to transform the way information is recorded, stored and retrieved in order to meet the upcoming requirement.

Once implemented, SAF-T will enable the Norwegian Tax Authorities to perform data analyses on a previously unprecedented level. An XML-based transmission of the data included in the Norwegian SAF-T file allows for the application of sophisticated and pre-defined controls for testing, thus increasing the probability of detecting misstatements. Through such analyses, for example, misstated VAT entries may be detected by the tax authority within a few minutes.

In addition, other uses for the SAF-T data are under consideration. One topic under discussion focuses on simplification of tax reporting, or “e-tax-returns”. Another is concerned with the transfer of bookkeeping records between providers of bookkeeping services and between bookkeeping and accounting software. The intention is that the SAF-T file will ease transitions from one ERP system to another, as well as switching service providers.

Analysis of SAF-T

The non-mandatory requirement to issue SAF-T files has been in place over a year but there are still some uncertainties. Most companies have found the adoption more difficult than expected. The average implementation time for taxpayers has been three to five months, which can be viewed in the light of the early discussions where the initial impression was that the data could be retrieved more or less directly from their existing ERP systems. One conclusion from the experiences with SAF-T in Norway so far is that the Norwegian government and tax authorities underestimated the complexity for businesses adapting to SAF-T and the time required for doing so.

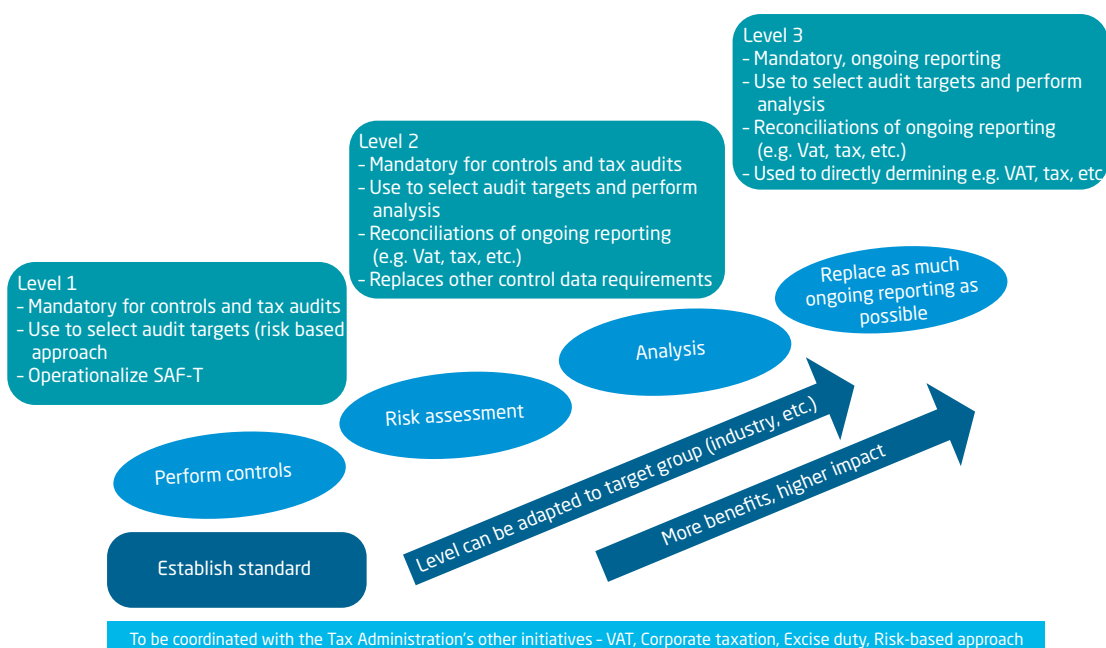
One major complexity of the current proposed standard is that the amount of data included in the reporting is extensive. For instance, data linked to attributes such as project codes, used for accounting purposes, is included in the file. Such data combined with data in relation to materials and components used in a specific project may be sensitive and could lead to the revelation of business secrets if the information becomes accessible. The SAF-T files also includes master data such as client lists and department ledgers, which gives rise to other privacy issues. In addition, the file contains data on customer segments where one group is defined as “secret addresses”. Access to the SAF-T file may thus also give access to protected addresses, which in the light of GDPR is likely to be an issue for future discussions in Norway.

Another concern raised in Norway is the amount of data provided, which from the taxpayer side is perceived to be more than what the tax authorities can make use of in practice. It is currently not clear if or how the tax authorities will make use of this vast amount of data.

Where SAF-T is headed

The Norwegian tax authorities have been quite open about how they plan to use SAF-T data going forward. The aim is to use the data to reconcile ongoing tax reporting as well as tax determination where possible. There is also an intention to replace as much of the ongoing business reporting as possible, not only reporting for tax purposes, with the data provided through the SAF-T files.

The Norwegian tax authorities have communicated that when the requirement becomes mandatory in 2020, the first step will be to ask for the SAF-T file as part of audits to make sure taxpayers are able to provide it. They will also start to use the content of the files for analytics as part of the audits.



Presentation from the Norwegian tax authorities on how SAF-T could develop in the future.

The next step will then be to use SAF-T data as a tool in the selection of audit targets. Analytics on SAF-T files from entities in the same industry will enable the authorities to better pinpoint outliers, i.e. taxpayers that are a certain standard deviation from the norm. These will potentially be subject to more detailed audits. Over time, when all tax-paying entities file SAF-T data, the authority will, at least in theory, be able to apply analytics to the aggregated amount of data in order to detect outliers. This requires a mandate for continuous filing of SAF-T data, which is not currently the case.

An area for potential debate going forward is also harmonisation between fields of regulation, such as definitions used in different areas of taxation as well as for tax and accounting purposes. A harmonised set of rules and definitions would enable both the authorities and the business sector to use the content of the SAF-T files for wider purposes, as illustrated by the benefits of SBR. However, as the consequences of such harmonisation can be complex and difficult to determine as a whole, this discussion is not expected to give rise to any regulatory changes in the near future. An adjacent topic also likely to be of much interest in the future is how Norwegian legislation can or needs to become code-friendly to make it easier for the authorities to compare data from different entities and enhance the potential for more advanced analytical tools.

5. Conclusions

This report shows that many countries are approaching the transition to digitalised business reporting from different angles. On the one hand, southern European countries (e.g. Italy and Spain) are moving towards a real-time data-driven tax environment from a tax gap perspective, with the ambition to reduce corruption and fraud, make the formal economy larger and the informal economy smaller. The same development can be seen in Latin American countries. On the other hand, countries with a relatively low tax gap such as the Netherlands, Sweden and the UK have adopted an alternative approach to digital reporting, based more on mutual trust and assurance of digital information chains and working processes. One reason for this may be that the business case for investing heavily in adopting a real-time data-driven tax environment is weaker in these countries.

In other parts of the world, such as Russia and eastern Europe, tax authorities are adopting real-time data-driven approaches to fight corruption and fraud, not only to close tax gaps but also as a method of fighting financial crime. Outside Europe, we see that Australia, New Zealand and certain south-east Asian countries (e.g. Cambodia and Vietnam) have quite rapidly established advanced data-driven tax authorities due to a high level of tech-savvy and not being burdened by legacy positions (e.g. reliance on outdated or obsolete processes and technology). This combination of traits gave the tax authorities in these countries the means to adopt and implement new technologies into existing or newly created workflows with comparative ease.

When considering different solutions and pathways in the new digital landscape of business to government reporting, the experiences from the initiatives reviewed in this report point to a few relevant issues that should be taken into consideration.

Timeframes and system considerations

As with any other legislative change or new obligation that impacts the business sector, digital reporting requirements must be grounded in a deep understanding of the variety and complexity of business systems and the potential difficulties of adjusting and retrieving data.

While the drivers for and approaches to digitalised reporting examined in this report differ, it is apparent that when efficient tax collection is the overarching aim of the requirements, challenging timeframes are common obstacle for both business entities and public authorities. This affects the quality of implementation and may be costly for all parties, with postponed deadlines and increased insecurity for businesses a typical side-effect.

The technically related challenges in implementing new reporting obligations linked to systems and data are regularly underestimated. Several of the initiatives in the EU target small and medium-sized enterprises, most of which have an IT environment that is fairly uncomplicated. For larger entities this is usually not the case. The systems landscape of big corporates is often fragmented and complex with several add-ons and sub-systems that have been supplemented gradually over time. To comply with new

information requirements, data needs to be collected, processed and reported from several sources and across borders. This makes reporting projects for larger entities both costly and time-consuming. An added layer of complexity for these companies is the fact that their IT-environment may need to cater to a variety of different reporting landscapes and regulations worldwide.

Collection of data - amount and quality

The different approaches to digital reporting discussed in this report directly or indirectly give rise to questions concerning the amount and quality of data to collect, as well as how data should be managed. In the case of SAF-T filings, it could be questioned if the amount of data requested by the authorities is proportionate to the efforts of retrieving this data from the business side. The collection and access to huge amounts of data by authorities also leads to considerations around privacy and confidentiality. The detailed data could contain sensitive information that may be used for multiple purposes. The increased access to data may not always be in the companies' best interest, particularly if it is not clear how the information is used and by whom. Further, transaction-level business data frequently contains personal information that is subject to other legal requirements such as GDPR.

Reporting obligations to authorities may impact and change the way companies conduct business

There are examples, among which perhaps the most significant in the EU is Italy, where new digital requirements have had material impact on how companies run their everyday operations, affecting logistics processes, cash flow and the overall vendor/customer relationship. In the extreme case, taxpayers may even include far-reaching reporting requirements as a factor in the decision of where to base their business.

Proportionate sanctions in a digital future

Digital reporting will provide the tax authorities with new and extended possibilities to collect and analyse large data volumes on a much more granular level going forward. According to experience so far, the vast majority of errors found in the countries that have implemented digital reporting requirements are unintentional formal mistakes. On a transaction basis, such mistakes could be numerous if the underlying systems or data are not updated. Even if formal errors have no or little effect on the actual taxes paid to the government, they may nevertheless be subject to sanctions. Thus, on an aggregate level, a systematic search for formal errors in the digital reporting system may lead to significant penalties even if the actual tax paid is not affected. To protect taxpayers' legal rights, sanctions and penalty fees must be adjusted to a future in which audits will include analytics on transactional data. Unfortunately, this issue has been neglected so far. For example, when the Swedish legal penalty fees were reviewed and updated recently, the question of how future technological development will affect the tax collection process was not discussed. Another example of an opposite development is Poland, which recently introduced detailed digital reporting requirements and simultaneously proposed new and increased penalty fees, targeting pure data errors.

Consequences of real-time reporting

Most of the new digital reporting models being introduced globally do point in a direction where in the future we will have little or no time (real-time) to report and where more data is provided to the authorities. When the window for post-transac-

tional internal controls diminishes, the need for the tax treatment of a transaction to be “right first time” will rise. The implementation of real-time reporting in Spain and e-invoicing in Italy has shortened the time for companies to prepare and correct the information included in the monthly VAT return by more than 20 days. In order to adapt, companies have invested significant amounts in system-related projects and refined internal processes. The shortened timeframes also create pressure on public authorities as the demand from taxpayers for assistance and relevant data increases. In many cases, only tax authorities can provide taxpayers with the right input for correct tax treatment. One way of reducing pressure on tax authorities is to provide data via APIs, which allows businesses to automate controls and checks currently done manually at a later stage in the reporting process.

Digitalisation or standardisation?

The development towards automated processes enhances the demand for standardised comparable data and more code-friendly legislation with less room for interpretation. This includes eliminating terms that can be widely interpreted and subsequently difficult to translate into code, as code needs clear definitions. Interestingly, the discussions on code-friendly legislation will most likely occur both in countries that do not aim to collect a lot of data from taxpayers, such as Sweden, and in countries where the intention is to collect a vast amount of data, such as Norway. A driver for the discussion on more code-friendly legislation in Norway is the need for the tax authorities to make better use of the data collected as comparisons between companies and sectors as well as risk assessments may be more precise if the data is based on synchronised definitions. At the same time, vagueness in definitions and complexity around legislation is normally intentional, especially when it comes to tax legislation where it is not possible to foresee future application. Making legislation more code-friendly may therefore not always be desirable or even possible.

Developments within SAF-T and e-invoicing have shown the trend and ambition of governments to have more modern reporting approaches that replace the current methods of fiscal monitoring. Through use of SAF-T in Poland the government aims to replace the current monthly VAT reporting. A similar ambition has been voiced by the French parliament and Italy, where they aim to pre-populate VAT returns with data submitted through e-invoicing.

Another aspect that relates to the topic of code-friendly legislation is potential harmonisation of definitions and terms between different tax laws, accounting rules and other fields of law that regulate information that companies are required to provide. Such harmonisation enables effective reuse of information and is a basis for initiatives such as the “once-only principle”, potentially decreasing the burden on small businesses in particular. However, the obstacles to aligning definitions and terms outlined for specific and different purposes should not be underestimated. When selecting between fiscal grounds and the information needs of other stakeholders, the former is in many cases the most likely to triumph.

Provision of tax code from tax authorities

There are ongoing discussions in several countries about the possibility for tax authorities to provide code to companies to be used in their internal ERP systems and thus directly participate in the companies’ automated tax decisions. Apart from the topic of code-friendly legislation mentioned above, provision of tax code from authorities blurs responsibilities between tax authorities and taxpayers and raises questions

regarding who is accountable for errors. Further, providing tax legislation via code to taxpayers will also be technically challenging on the basis that the tax outcome of a transaction will often change depending on the specific circumstances of each taxpayer.

Lack of overall strategy for digital reporting

As the reporting environment currently is in a state of constant change, nailing down a sustainable digital strategy is a burdensome process, particularly for large entities dealing with a variety of requirements in several jurisdictions. Because of the short timeframe between proposal and implementation, the time to act strategically in relation to the new obligations is generally limited. In practice, this pushes businesses to fire-fight each and every new initiative, thus creating independent local solutions to the new reporting requirements. It is often not the same people involved in managing an SII implementation in Spain, a JPK implementation in Poland and adapting company processes and data to Making Tax Digital in the UK. Within multinational entities there is an ongoing discussion of how long the current firefighting can be maintained when even more jurisdictions go online. Alongside this discussion, different vendors such as software providers are considering standardisation issues and how to make their platforms flexible enough to facilitate adaption in new jurisdictions. The reporting entities' perspective is not always taken into consideration in the development of digital reporting initiatives. Thus, as well as reasonable implementation periods, opportunities for the business sector to provide input and comment upon new potential requirements is equally important.

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