There are a lot of good reasons to move from paper invoice processing to electronic invoicing, such as faster turnaround times, greater visibility, improved control, and a lot less paper to handle and store. Those translate into improved supplier relationships and significant cost savings for most companies.

Here’s another good reason: Because the government says so. According to a recent Economist article, governments in several Latin American countries are requiring all companies to issue invoices electronically. The move helps governments nip tax fraud in the bud and, ensures they collect all the tax revenue they are entitled to.

In a VAT system, invoices are key legal documents. Your e-Invoicing should ensure they are audit-proof.

FOUR WAYS TO BE SURE YOUR ELECTRONIC INVOICES HAVE YOUR BACK

“AN AUDIT . . . IS A COURTROOM-LIKE SITUATION, WHERE YOUR DATA IS THE EVIDENCE AND YOUR INVOICES ARE THE WITNESSES.”

Whether mandated by the government or not, dealing with invoicing regulatory requirements and compliance issues is an additional value driver for adopting electronic invoicing for any company that does business outside the U.S. That’s because in almost every other developed country aside from the U.S., a significant portion of public revenue is derived from Value Added Taxes (VAT).

In countries with a VAT system, all companies effectively operate as tax collectors for the government and must regularly settle the difference between the VAT they remit and the VAT that they owe. Invoices are key legal documents in this process, and therefore electronic invoicing is strictly regulated. With VAT rates commonly in the double digits, even up to 27%, companies want to be very certain their electronic invoices will hold up to regulatory scrutiny.
For multinational companies, keeping up with these regulations manually everywhere they do business is daunting. The key is to have an e-invoicing solution that cannot only help you navigate the day-to-day complexity of doing business in different countries and with different governments, but also provide you with impeccable documentation of your electronic transactions.

There are four things your e-invoicing system must do to provide unassailable invoicing records:

- **Content:** Does this electronic blob of data contain everything required to make it an invoice?
- **Integrity:** Is the data still the same after all these years? How do I prove in 2020 that what I'm showing you is the same data I received in 2014?
- **Authenticity:** Who does the data come from? How do I know that is the right source?
- **Archiving:** Am I holding on to the blob of data for the required amount of time and in the required fashion?

In the government-mandated model prevalent in Latin America, all of this is very prescriptive and therefore relatively straightforward. You simply cannot issue an electronic invoice without the government being directly involved. As a supplier, you have to hook up to their system and follow their technical specifications and content requirements. Once you clear your invoice with the authorities, you can issue it to your buyer.

Everywhere else, how you comply with regulations is up to you, and enforcement comes after the fact in the form of an audit. No one is forcing you to adopt e-invoicing, but the economic benefits are even greater simply because there is a bigger burden on companies to comply with regulations.

Note that in many countries, nobody can proactively guarantee that you are compliant. You cannot go to the local tax authority and say, “Hey, can you look at our solution and give us a stamp of approval?” It’s up to you to make sure that you comply. Doing that in a paper-based manner is more expensive than doing it in an electronic manner, and if you get audited, it’s going to be really expensive.

I think of an audit as being similar to an episode of a TV crime drama. In the event of an audit, compliance with regulations is subject to interpretation. It’s a courtroom-like situation, where your data is the evidence and your invoices are the witnesses.

You want to be prepared with evidence that holds up under cross-examination, so if you get a taxman that is having a really bad day and he wants to make your life miserable, you have evidence that’s irrefutable.

You want to have clean-cut, good-looking witnesses who are well-spoken; that means clear, legible invoices with detailed content, an audit trail that shows where they’ve been, and electronic signatures that shows where they came from and that their story hasn’t changed. Those are good invoices. Those are the invoices you want on the witness stand.

Tax authorities feel comfortable with the traditional file cabinets full of paper, but that’s an outdated and expensive way for companies to do business. With the right electronic invoicing solution, you can get all the primary process benefits while also lowering compliance risk, compiling unquestionable evidence of your electronic invoicing activities, and auditability unparalleled by paper processes. This will simplify the complexity of global business for you and your suppliers, so you can focus on what you do best: Your business!