

BUSINESS JUSTIFICATION
FOR THE DEVELOPMENT OF NEW ISO 20022 FINANCIAL REPOSITORY ITEMS

A. Name of the request:

Invoice Tax Report

B. Submitting organisation(s):

Federation of Finnish Financial Services (acronym: FFI)

Tieto Corporation (acronym: Tieto)

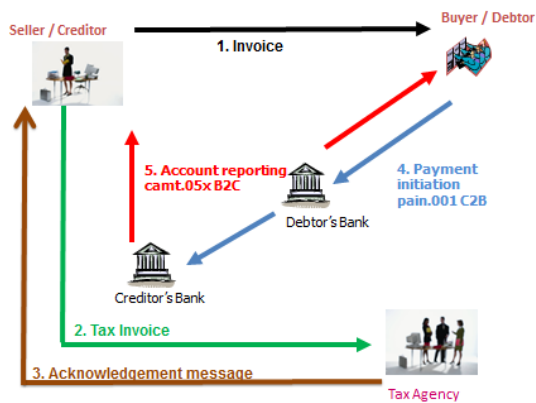
C. Scope of the new development:

Value Added Tax (VAT) is a commonly used method in numerous countries based on related laws. For VAT collection purposes, corporates and other tax responsible stakeholders shall report to their responsible TAX Authorities information required to control paid VAT. In European Union, VAT is governed by the EU Commission Directive and local legislation. The VAT process is tightly connected with the invoices and invoicing. Rapidly deployed e-invoicing makes it possible to develop new and efficient means for required data collection for authorities to control and govern VAT process. The scope of this business justification is to develop one or two messages: a single tax reporting message to be used from corporates to tax authority and possibly an acknowledgement message from the authority to the corporate.

In Finland, financial institutions and other stakeholders have run a project to define process and data content for efficient VAT reporting. The project has also been monitored by the Finnish Tax Administration (acronym: FTA). Financial Institutions may offer the e-invoice processing and VAT reporting services as part of the business model.

While these messages have tight link with Financial Invoice and they are targeted from corporates to tax authorities we suggest that this business justification belong into business area: Miscellaneous/Generic AUTH . We also suggest that TradeServices SEG should be in charge of evaluating the messages.

Figure 1. An illustration of the developed model



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Phases on four-corner-model activities when Debtor buying services or goods

1. Invoice

- Creditor delivering the invoice for the goods and/or services purchased
- Invoice is included with remittance information that can be invoice number, local creditor's reference (e.g. SCOR) or international creditor's reference (ISO 11649). In Pain.001 message can identifier the type of creditor reference is used. SCOR is structured communication reference provided by the creditor to identify the referred transaction.
- invoice includes VAT information (amount and VAT base)

2. Invoice Tax Report

- Creditor or Creditor service provider (Bank or e-invoice operator) send the Invoice Tax Report to Tax Agency.
- Invoice Tax Report included e.g. Seller and Buyer VAT identifications, VAT information (e.g. VAT %) and amount.
- Invoice Tax Report can be send at the same time as e-invoice or Invoice Tax InvoicesReports can be accumulated and send all at once to Tax Agency. Tax Agency gives the time schedule when the Invoice Tax Reports must send.

3. Acknowledgement message

- Tax Agency can give acknowledgement message to indicate that they have received the Invoice Tax Report

4. Payment initiation / pain.001

- Debtor pays the invoice as a payment to its bank using ISO 20022 pain.001 payment initiation message
- Debtor also includes the remittance information that Creditor wanted to have into its Accounts Receivable (A/R) reconciliation
- In SEPA-transactions the EndToEndId is debtor initiated transaction level unique id that will follow the transaction through the whole chain. It is

not yet used for reconciliation but tracking the transaction in possible investigations.

5. Reporting from debtor and creditor bank

- Using ISO 20022 XML camt.053 statement message or camt.054 debit/credit notification message (also camt.052 account report message is available for intra-day reporting for liquidity visibility purposes)

The submitting organization proposes to repeat the elements of the Business Application Header. Doing this, it is possible to use Invoice [Tax Report](#) message set with or without specific BAH as required by specific country or community.

D. Purpose of the new development:

Today's processes do vary from country to country. Some countries has defined their own specific [Invoice Tax Report](#) specifications that shall be used towards authorities. However the current processes vary by the contents and means. This is challenge for the corporates operating in several countries and having responsibility to communicate with different tax authorities.

Standardizing VAT information flow from corporates to authorities does support harmonization and overall efficiency of the processes. Using standardized reporting tax authorities can develop controls and procedures.

Currently developed ISO 20022 Financial Invoice, Pain and CAMT messages provide robust base for Invoice [Tax Report](#) and modern processes in corporate to authority communication.

In addition the automation of this VAT process will help the authorities in fighting crime. When the process is made light and fast it will bring the necessary data for the authorities in a more effective way.

E. Community of users and benefits:

The Invoice [Tax Report](#) users are:

- Tax authorities
- corporates (both seller and buyer)
- accounting companies
- service providers (Banks and e-invoice operators)

1. Benefits/savings:

Tax authorities

The current Finnish Government has stated clear measures to fight against "grey economy". Details of actions have been documented in the Government Programme called "An open fair and confident Finland". Discussions have started amongst all stakeholders for actions to assist. Some estimates suggest that the action plan could annually generate EUR 300–400 million in additional tax revenue and social security contributions and in recovered crime proceeds.

Invoice [Tax Report](#) is one of the key components in the real-time VAT reporting model that enables automation of VAT reporting. Tax Authorities benefit of standardized incoming data that can be delivered at invoicing time.

Corporates

It is common status that corporates have to report towards tax authority for their VAT trade on monthly. Suggested specification makes it easy to enable automated reporting online based on electronic invoice contents.

Corporates benefit while they don't need separate reporting data collection and delivery. Sellers can provide VAT information right a way to Tax Authority while issuing the invoices.

Accounting companies

When VAT reporting is electronic it enables lot of efficiency benefits for underlying processes and services in book-keeping.

Banks and e-invoice operators

The service providers can offer tax reporting services as part of the service.

2. Adoption scenario:

Tax authorities

Adoption depends very much on tax authorities' actions. In the case that authority regulates tax reporting into electronic form and pre-defined content adaption can be very rapid. Standardized Invoice [Tax Report](#) message fosters the development of automated VAT reporting processes. The Finnish Tax Administration (acronym: FTA) supports the endeavours to automate reporting processes and data collection practices. Standardisation of Invoice [Tax Report](#) message has been recognized by the FTA as one development path. FTA will oversee the Invoice [Tax Report](#) development work and will estimate the prospects to utilise the message in its future development endeavours.

The EC and ECB have in e-SEPA and beyond been lobbying banks to get involved in e-invoicing and financial administration automation built on exchange of structured business data. The e-invoicing is the platform and the layers built on it deliver the value in form of cost savings and real time accounting.

The value of ISO20022 Financial Invoice is not only in individual standard but in the "family" of interlocking standards supporting the e2e process. Harmonized VAT-reporting and payments are supported by the EC DG Taxud green paper recommendations and in the next phase setting the goal of getting the core elements standardized. It is important to use a global high quality standard to help multinationals to automate their reporting globally. At the DG Taxud meeting in 2011 this model was presented and it was reported that most if not all tax administrations showed strong interest.

Corporates can collect the [Invoice Tax Report](#) information and send it to the tax authority or they can outsource that to the service provider.

3. Volumes:

All corporates in countries where there is VAT/GST in place.

4. Sponsors and adopters:

Bank of Finland (acronym: BoF)

BoF accentuates the need to maintain the competitiveness of the Finnish economy by increasing efficiency and cutting costs. BoF has previously emphasized the importance of developing financial administration systems that would automatically generate the data required in accounting and tax reporting. BoF remarks that standardisation is required to secure the wide scale introduction of such automated systems. BoF supports the initiative to develop global ISO standard for Invoice **Tax Report**, which could be further utilized in the automation VAT reporting to tax authorities.

F. Timing and development:

- These messages are linked to the Finnish Real Time Economy project (<http://econ.aalto.fi/en/research/rte/>) and FFI and Tieto will involve standards organisation(s), industry groups, user representatives, vendor representatives, service providers and regulatory bodies, in the development of Invoice **Tax Report** message.
- *FFI and Tieto estimate that to secure the adoption of the Invoice **Tax Report** message in the development of VAT reporting models in Finland, the message should be available by the end of 2012 or 1Q 2013 latest. If this deadline is missed, authorities may look for alternative, proprietary mechanisms which will prevent the community from enjoying many of the benefits of the ISO 20022 approach.*
- Expected submission of ISO 20022 business and message models to ISO 20022 RA by end of December 2012.
- We are not aware of any similar standards initiatives.

G. Commitments of the submitting organisation:

FFI confirms that it will promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of their submission to the RA.

Tieto confirms that it can and will:

- Undertake the development of the candidate ISO 20022 business models and message models that it will submit to the RA for compliance review and evaluation. Aim is to acquire and use the new tool designed for ISO20022 use.
- The submission will include Business Process Diagram (activity diagram) and Message Flow Diagram (sequence diagram), and other descriptive material that will be used by the RA to generate the Message Definition Report;
- Address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.
- Evaluate the suitable testing options in the course of the message development work. Aim is to involve the Finnish Tax Authority and Real-Time Economy Program to the testing process.

FFI and Tieto confirm that they are committed to initiate and/or participate in the future message maintenance.

FFI and Tieto confirm their knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organisations, as follows.

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information”.

H. Contact persons:

The submitting organisation will identify the person(s) at the submitting organisation that can be contacted by the RA, RMG or SEG to get additional information on the project and/or its business justification.

Pirjo Ilola, Federation of Finnish Financial Services (FFI)

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Tapani Turunen, Tieto Corporation (Tieto)

Tapani.Turunen@tieto.com

I. Comments from the RMG members and relevant SEG(s) and disposition of comments by the submitting organisation:

RMG feedback with the responses of the submitting organisations:

Comment from EPC:

Business Justification : Tax Invoice

Submitter : EPC (Christophe Godefroi)

Date: 21 July 2012

Input : The EPC has no comments (at this stage).

Comments from Norway

In Norway we do support that one should not be specifically focused on just VAT content. We do also have an issue with the naming “Tax Invoice” In Norway Invoice is closely connected to bookkeeping, and requirements for traceability etc. My understanding from the BJ, is that this is a report to the taxations authorities, identifying what is taxes connected to an invoice. As such it should be identified in the naming. A suggestion could be “Invoice Tax Report”.

Response by the submitting organizations:

Re-naming the message

The submitting organizations consider the Norwegian suggestion for naming - 'Invoice Tax Report' - very good. It describes better the nature of the BJ than the original name.

The scope of the message

The submitting organizations emphasize that the VAT reporting model as introduced in the part C could be applied to other tax reporting schemes as well. Yet, VAT reporting has been in the focus of the submitting organizations and due to this focus also the scope of the BJ has been in VAT content. However, the submitting organization like to emphasize that common nominator is the tax information in invoice. Submitting organizations welcome contribution from different countries and organization so that design will suit into as many countries as possible.

Submitting organizations do not resist the expansion of the scope nor see any obstacles to consider other tax contents.

Comments from Payments SEG:

Comments on Tax Invoice BJ from the Payments SEG.

The Payment SEG would like the proposed Tax Invoice messages to fit into the tax reporting practices in other countries. The tax invoice should not be specifically focused on value-added-tax (VAT); the tax invoice should be flexible to support any tax content model.

Response by the submitting organizations:

The scope of the message

The submitting organizations emphasize that the VAT reporting model as introduced in the part C could be applied to other tax reporting schemes as well. Yet, VAT reporting has been in the focus of the submitting organizations and due to this focus also the scope of the BJ has been in VAT content.

The submitting organizations do not resist the expansion of the scope nor see any obstacles to consider other tax contents.

International coverage

The purpose of the submitting organizations is to create a global standard that could be utilized widely. The scope of the standard in the global sense is dependent on the number of countries participating the process. The contribution from different countries is welcome.

Other comments

The submitting organizations have also received feedback concerning the evaluation responsibility and participating SEGs. For submitting organizations it is obviously good that all related SEGs will participate.

Comments from South-Africa:

Styling the Business Justification as “Tax Invoice” appears to be a misnomer in that the messages proposed for development are for reporting of VAT information to tax authorities by corporates and their agents rather than for a standardized invoicing message set.

With reference to comments submitted by the Netherlands, we also seek clarification on the relationship between the proposed ISO 20022 messages and XBRL reporting. We are aware that XBRL (eXtensible Business Reporting Language) is a technology gaining widespread adoption for corporate financial and regulatory reporting. In South Africa, for example, the Johannesburg Stock Exchange has introduced an online reporting portal which allows companies to voluntarily file their financial reports using XBRL and an XBRL taxonomy is being considered for corporate actions. Our understanding is that XBRL operates in unison with, and is fully compatible with, ISO 20022. XBRL relies on XML tags and, on the face of it, “tagging” a limited set of key information data points in existing ISO 20022 Financial Invoice, Pain and CAMT messages together with XBRL reporting to tax authorities would achieve the same objective as developing new ISO 20022 message standards for reporting to tax authorities.

Combining billing and payment with VAT reporting may introduce complexity and process delays. For example, what happens with returns and non-delivery after the fact?

Response by the submitting organization:

Re-naming the message

The submitting organizations consider the Norwegian suggestion for naming - ‘Invoice Tax Report’ - very good. It describes better the nature of the BJ than the original name.

About the XBRL linkage

The Invoice Tax Report work is based on transaction based messaging while the XBRL is utilized (mostly) while reporting summarized (financial) information. It is also known that the implementation of the XBRL in tax reporting is for time-being relatively limited. The submitting organizations are members of the XBRL Finland and the cooperation with the Finnish XBRL endeavors is close. Thus, information will be actively exchanged between the XBRL Finland and the participants of the Invoice Tax Report work.

The core of Invoice Tax Report work is based on the notion that the invoice data is sufficient to cover the tax reporting requirements. The payment and invoice messages are standardized (ISO20022), and hence the standardization of message for tax reporting is expected continuum to this development. It is considered that the model as presented in part C enables full automation of the tax reporting of all sectors (including SMEs).

Exceptional cases

The Invoice Tax Report and its applications are not required to be strictly bound to the process of payment. Also in the case of credit invoices and non-deliveries, the corrections can be carried out utilizing the same channel and process as described in part C.

The model as described in part C is sample plan for debit invoices. Credit invoices can be included into the model quite straightforward. Finally, suggested model does not restrict the use of afterwards/monthly/manual corrective reporting for specific cases.

Comments from the Netherlands

Comments on New Business Justification Tax Invoice - ISO20022BJ_TaxInvoice_v2.pdf

The comments - at this moment - are mainly questions for clarification about intentions and positioning.

It should be noted that XBRL (eXtensible Business Reporting Language) is a language for electronic communication of business and financial data which is revolutionising business reporting around the world.

Based on the use of XBRL, a number of countries is changing the way in which business reporting is done: the concept is to make business the centre when it comes to managing business-to-government reporting obligations (http://en.wikipedia.org/wiki/Standard_Business_Reporting.)

In various countries new functions have been offered or are being offered (or even in the process where their use is becoming mandatory)

Examples are:

- <http://www.sbr-nl.nl/> - As of 1 January 2013, SBR is the only allowed channel for certain types of mandatory business reporting in The Netherlands
- <http://www.egov-estonia.eu/xbrl> - In Estonia entrepreneurs can submit annual reports in XBRL format via the e-reporting environment of the e-Business Registry Company Registration Portal.
- <http://www2.xbrl.org//eu/> - XBRL Europe has been set up to foster European XBRL efforts and to implement common XBRL projects in Europe between its members and to liaise with European Authorities and organisations; see also <http://www2.xbrl.org/eu/XBRL%20eu-insight%20MAY%202011final.pdf>
- <http://www.eba.europa.eu/Supervisory-Reporting/XBRL.aspx> - where the European Banking Authority states: We recommend the use of XBRL as it will lead to greater harmonization of IT formats with the adoption of XBRL taxonomies; more details can be found at <http://www.eurofiling.info/index.shtml> http://www.xbrlwiki.info/index.php?title=CEBS_Why_is_XBRL_recommended_to_be_used%3F–

In addition to that, there is the ‘Draft Business Plan for the CEN Workshop on XBRL’ aiming at improving transparency in financial reporting (to be approved during the Kick-off meeting on 2012-05-30)

It is realised that the reporting referred to above is not necessarily the same type of reporting (transactional versus annual ?) as the reporting referred to in the Business Justification. Nevertheless it should be clarified how reporting based on messages to be developed in ISO 20022 is supposed to be positioned in the world developing around the use of XBRL. For entrepreneurs, there should be no two different formats to use and maintain in parallel.

In addition, though not related to the contents of the BJ itself, but rather to the process to be followed, clarification should be provided in reference to the RMG Resolutions 11/184 Communication of cross community issues on BAH, 12/208 – Communication of the BAH, 11/191 Vision paper and 12/214 – Webex for ISO 20022 Vision Paper (and its follow-up). This can be elaborated separately.

P. Potgieser - RMG Netherlands

Response by the submitting organizations:

About the XBRL linkage

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Comments from Japan

We would like to know to what extent the proposed messages will fit to tax reporting practices in various countries. We think the messages must comply with practices in various countries, however, as the BJ admits at the section D, the practices vary from country to country. For example, at this stage, VAT reporting scheme in Japan is different from what is discribed in the BJ. We would like to know whether the proposed scheme is acceptable to most of the EU countries.

Satoru Yamadera

Response by the submitting organizations:

International coverage

The purpose of the submitting organizations is to create a global standard that could be utilized widely. The scope of the standard in the global sense is dependent on the number of countries participating the process. The feedback from all countries would be considered.

The submitting organizations would also like to emphasize the multiple aspects related to the utilization of the Invoice Tax Report. It should be noted that currently there are countries such as Russia and Brazil that have already implemented mandatory tax reporting schemes, meaning that prior sending electronic invoice the tax information related to the particular invoice should be delivered to the authorities. These mandatory 'Tax Invoice' schemes have been implemented without standardization. The Invoice Tax Report as described in the BJ could be utilized to create unified base for the mandatory schemes globally.

At the same time, it has been noted that that the standardization of the Invoice Tax Report content could promote development of new and more automated practices of VAT/tax reporting in several countries. The submitting organizations do not see any technical obstacles for the proposed model (in the part C) to be unaccepted in EU countries.

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