E-Invoicing in Latin America
Ensuring Compliance and Alignment with Corporate Strategies

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Presenter: Christiaan van der Valk, President & Co-Founder, TrustWeaver
e-Invoicing Partner and Speaker

- Co-founded TrustWeaver, provider of innovative SaaS service IT compliance solutions servicing many of the world’s largest corporations, in 2001.
- 2000 World Economic Forum (WEF) Global Leader for Tomorrow.
- 15+ years served as member in a number of European Commission expert and working groups, including the CEN E-Invoicing Workshop
- Co-chairs the ICC Digital Economy Commission’s Task Force on Security and Authentication
- Member, Supervisory Board of the .nl domain registry foundation (SIDN)
- Member, Exec Committee European E-Invoicing Service Providers’ Association (EESPA) and Chair of EESPA Public Policy Working Group
- Vice Chairman of EDIFICE, the European network for B2B integration in high tech industries
- Co-founder and Board member, Digital Trust and Compliance Europe (DTCE)
- Law degree from the Erasmus University in Rotterdam, Netherlands

Christiaan van der Valk
President & Co-Founder
TrustWeaver
Agenda

- Current Status Invoicing/E-invoicing
- Law Enforcement and Audit Options
- Regional & LATAM Specific Regulations
- Global Efficiencies vs Local Compliance
- Achieving the Best of Both Worlds
Electronic Invoicing in Latin America
Why the invoice?

• "Self-assessment tax »
• Company as a tax collector
• Invoice is the key transaction evidence
Law Enforcement and Audit Options Worldwide

- **prepare**
  - « ex ante » contract-based relationship e.g. Netherlands, Australia

- **process**
  - « clearance » real-time controls e.g. BRICS, LATAM

- **archive**
  - « ex post » audit years later e.g. EU
Global Evolution

Europe/EU 2001/2010: emulation of paper process (ex post)
Global Evolution

Two Critical Success Factors

**CLEARANCE**

- Generally very quick results
- Up to 90% adoption
- Less fraud and corruption
- Real-time economic data
- Targeted tax enforcement
- Local trust base
- Invoice finance (e.g. factoring)
- More value-added services

**MANDATES**

Supplier ➔ State or State Agent ➔ Buyer
Mandate Mania

Mexico

Ecuador

Chile

Brazil

Uruguay

Argentina
Mandates are for Real

- Technology-driven requirements
  - Compliance/non-compliance = **binary** yes/no proposition

- Non-compliance easily equated with tax evasion:
  - **Administrative penalties** e.g. 150% of the value of the supply (Brazil).
  - **Imprisonment** of repeat offender executives
  - **Closing down** of enterprise
Global Evolution

Russia (2013): clearance
Global Evolution

China (2014/15): clearance
Global Evolution

Portugal (2012/13): clearance
Basic Clearance Features & Functions

1. OK TO ISSUE?

2. CLEARED FOR ISSUANCE

3. ISSUE INVOICE TO BUYER

4. VALIDATE CLEARANCE

5. CONFIRM CLEARANCE

Supplier

State or State Agent

Buyer
Some Advanced Features

Supplier

ACKNOWLEDGE/REJECT

CONTINGENCY

CANCEL

State or State Agent

Buyer
## Clearance Model Differences and Commonalities

<table>
<thead>
<tr>
<th></th>
<th>Mexico</th>
<th>Brazil</th>
<th>Turkey</th>
<th>Russia</th>
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</thead>
<tbody>
<tr>
<td>Digital signature (on invoice or summary)</td>
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<tr>
<td>Mandatory XML format</td>
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<tr>
<td>State (not State Agent) clearance</td>
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<td>Delivery of tax invoice to buyer through clearance mechanism</td>
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<tr>
<td>Full cycle clearance (buyer acknowledgement/rejection)</td>
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<td>Imminent Possible, not mandatory</td>
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</table>
Brazil

- 3rd LATAM country to allow e-invoicing.
- Since 2005, driven by the Brazilian Tax Authority “SEFAZ” (Secretaría de Fazenda).
- Mandatory XML format with more than 400 fields.
- Digital signatures based on certificates from authorized CAs.
- Clearance for goods, transport and services invoices on State and municipality (“Prefeituras”) levels.
- Graphic representations possible, e.g. in PDF with an “access Key (NFe key)” generated based on certain XML fields.
- 5 Years mandatory archiving.
Goods e-Invoicing Brazil (NFe)

1. Supplier sends XML file with tax information
2. Government responds with "authorization of use"
3. Local state Tax Authority submits to federal Tax Authority database
4. DANFE which facilitates verification of NF-e by inspection stations
5. Transportation carrier may also need the DACTE Electronic Waybill or a MDFE (several CTE grouped)
6. Suppliers sends NF-e or CT-e
7. Goods delivered to buyer with DANFE, DACTE
8. Buyer must validate authenticity with National Tax Authority
9. In case of any adjustment related to the goods (quantity, quality, etc.) the buyer can create a MDE.

Suppliers sends NF-e or CT-e

Goods delivered to buyer with DANFE, DACTE
Services e-Invoicing Brazil (NFS-e)

1. Supplier sends RPS file with tax information.
2. Prefeitura responds with a NFS with an authorization code.
3. Suppliers sends NF-s in a PDF Format.
4. Some Prefeituras send the NF-s to the buyers Prefeitura for validation.
5. In some cases the Buyer can check the NF-s info in his local Prefeitura.
México

- 2\textsuperscript{nd} LATAM country to allow e-invoicing.
- Since 2005, driven by the Mexican Tax Authority “SAT” (Servicio de Administración Tributaria).
- Mandatory XML format.
- Mandatory electronic signatures based on SAT-issued certificates.
- Clearance for goods, services, transportation and soon payslips (mandate before April 2014).
- Certified operators (PACs) perform clearance for SAT.
- Graphic representations, for example in PDF format, possible, but always with QR code with the “original chain”.
- CFD zone “Adenda” allows adding key business data.
- Mandatory since 2010.
- 5 Years mandatory archiving.
e-Invoicing in Mexico (CFDi)

1. Supplier sends XML file with tax information, and complements (different types of taxes).

2. The Authorized PAC validates the signed XML and adds invoice number and PAC digital signature ("timbrado").

3. A copy of the signed XMLs are sent to the National Tax Authority.

4. Printed CFDi which facilitates verification of goods by Federal Police.

5. Usually once the payment is issued, they sent the electronic CFDi.

6. The buyer can review one by one each CFDi in the Tax Authority Platform.

The buyer can connect to an Authorized PAC to validate via WS a batch of received CFDi.
Chile

- First LATAM country to allow e-invoicing.
- Since 2002, driven by the Chilean Tax Authority “SII” (Servicio de Impuestos Internos).
- Mandatory XML format.
- Digital signatures based on certificates from authorized CAs.
- Clearance through tax administration platform.
- Graphic invoice representations possible, for example in PDF format, with PDF417 bar code.
- 5 years mandatory archiving.
- Mandate for large companies by Oct 2014 – SMEs to be gradually integrated until 2017.
Argentina

- Since 2006, driven by the Argentina’s Tax Authority “AFIP” (Administración Federal de Ingresos Públicos).
- No mandatory invoice format.
- Taxable persons authenticate to an AFIP online service with a compliant certificate to get a “CAE” (Código de Autorizaación de Emisión) that needs to be inserted in the electronic invoice.
- No clearance.
- Invoice types; “A” normal B2B, “B” invoices issues to tax exempt entities, consumers or work under simplified regime, “C” issued by tax exempt entities or work under simplified regime, “E” for export, “M” for retention cases etc.
- 6 years mandatory archiving.
# LATAM Models – Detailed Comparison

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<th>Argentina</th>
<th>Brasil</th>
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<td>Acknowledge Documents – Acuse de Recibo (AR), Recibo de Mercadería o Servicio (RMS), Aceptación o Rechazo</td>
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B2B Strategy Tension

GLOBAL EFFICIENCIES OR LOCAL COMPLIANCE?

- Speed of mandate rollout favours local software adoption
- Local fragmentation: per-country integration and maintenance
- Security concerns as smaller subsidiaries lack resources to run enterprise software
The Best of Both Worlds

GLOBAL EFFICIENCIES AND LOCAL COMPLIANCE
Frequently Asked Questions
How does TrustWeaver partner with OpenText/GXS to support the new regulatory/compliance requirements in LATAM countries, including Brazil?

- **Archiving and Audit**
  - Secure electronic data warehouse for all invoice-related documents
  - Transaction audit trail
  - Management information for buyers and suppliers
  - Non-Signed EDI for France compliance documentation

- **Digital Signature and Security**
  - Digital signature per country rules
  - Guarantees identity of sender
  - Signed digital image or data file
  - Legal VAT document

- **VAT Compliance**
  - Invoice complies with country-specific tax authorities
  - Backed by team of analysts and accounting specialists
OpenText/GXS & TrustWeaver: Fully Managed Service

✓ Security & key management
✓ Performance
✓ Multi-country
  ✓ MX
  ✓ BR
  ✓ CH
  ✓ AR
  ✓ ...
  ✓ +50 worldwide
✓ Compliance maintenance
What are the key considerations for organizations that need to set up a cost effective e-invoicing process?

- Single global e-invoicing solution
- Interoperability
- De-couple compliance from business processes
- Address legal evolution
- Requires an understanding of legal areas other than VAT
Case Studies and Additional Resources on e-Invoicing
Case Studies

**Tyre Manufacturer**

- This company is one of the world's largest manufacturers of tyres supporting customers in multiple industries. They support their customers on a truly global basis and have 69 production locations in 18 countries.

- OpenText|GXS Active Invoice with Compliance was chosen as the preferred solution to help distribute tax compliant invoices to their customers in France. Longer term they will expand the solution to nine other countries and they will also be able to receive tax compliant e-invoices from their suppliers.

- This company is now able to work towards their corporate initiative of eliminating paper and reducing their current 18% invoice error rate.

**CPG Manufacturer**

- This company manufactures its broad range of food, drink and confectionery products across 450 locations and distributes across 86 countries. Each region had a different e-Invoicing solution in place and they decided to consolidate on to one platform.

- OpenText|GXS Active Invoice with Compliance was chosen as the preferred solution to allow 550 suppliers to be able to send invoices electronically by predefined web forms.

- This company is now able to meet numerous invoice compliance regulations including Bulgaria where the AIC platform has been recently rolled out.

**Automotive Supplier**

- This company is a global supplier of interior systems to the automotive industry with 260 manufacturing locations around the world. Many of their customers including Ford and GM have established new plants in Mexico, one of the world’s fastest growing automotive hubs.

- OpenText|GXS Active Invoice with Compliance was chosen as the preferred solution to allow this company to adhere to the specific e-Invoicing regulations in Mexico.

- OpenText|GXS has also been chosen as the preferred e-Invoicing provider to support their other manufacturing locations around the world.
## Additional Resources on e-Invoicing

### Answers to Common Mexico E-invoicing Questions

1. Is e-invoicing allowed?
   - Yes.

2. Is e-invoicing ever mandatory?
   - Yes. From January 2014 CFDI ("Comprobante Fiscal Digital a través de Internet") invoices are mandatory for all companies (the deadline is April 2014 for physical persons below a certain revenue threshold). CFDI invoices will no longer be allowed.

3. Is outsourcing of invoice issuance allowed?
   - Yes. The use of a tax authority accredited service provider ("Proveedor Autorizado de Certificación de CFDI", PAC) is mandatory for issuing electronic invoices, but the supplier may outsource other parts of the process to other service providers without limitation.

4. Is the tax administration involved in each transaction?
   - Yes. Each invoice must be sent to the tax administration ("Servicio de Administración Tributaria," SAT) through a PAC.

5. Does the VAT invoice need to be in a specific format?
   - Yes. The invoice must be in defined XML formats/schemas.

6. Are different methods allowed to ensure invoice integrity and authenticity?
   - No. Invoices must be electronically signed with a certificate issued by SAT to the invoicing entity. Additionally, the PAC signs the invoice, before sending it to the SAT.

7. Do these requirements cover other documents as well?
   - Yes. A printable shipping document ‘Carta Porte’ is issued (as a CFDI) and attached to the goods during transport. In practice a printed version of the goods invoice is often used.

8. Are these requirements applicable to other documents?
   - Yes. Payroll CFDI are also mandatory from January 2014 and follow the same issuance procedures as invoice CFDI. (CFDI is a general concept and will likely be applicable to more types of electronic fiscal documents in the future).

9. Are there constraints in relation to archiving?
   - Yes. Invoices must be stored electronically in their original XML format. Outsourcing is allowed although storage abroad is not explicitly regulated. Availability to tax authorities for auditing purposes has to be ensured.
Additional Resources on e-Invoicing

Answers to Common Brazil E-invoicing Questions

1. Is e-invoicing allowed?
   Yes. However, it is not unified. There are three different e-invoicing frameworks depending on invoice type. State-level tax invoices comprise so-called ‘NF-e’ for goods and ‘CT-e’ for transportation. Municipality tax invoices apply to services and are specified on a per-municipality basis under the umbrella term ‘NFS-e’.

2. Is e-invoicing ever mandatory?
   Yes. In principle e-invoicing is mandatory for both State and Municipality tax invoices, but exceptions exist.

3. Is outsourcing of invoice issuance allowed?
   Yes. There are no explicit rules about using a service provider for performing tax-relevant processes for a Brazilian taxable person. The latter however always remains fully responsible to the tax administration.

4. Is the tax administration involved in each transaction?
   Yes. For goods and transportation services (NF-e and CT-e) the tax administration is involved in the clearance process for every invoice. Contingency processes are foreseen in case the clearance services are not available, but the resulting invoices are provisional and must ultimately be cleared. Similarly, for services invoices (NFS-e), the municipalities are involved in the clearance process.

5. Does the VAT invoice need to be in a specific format?
   Yes. The Invoice must be in defined XML formats/schemas.

6. Are different methods allowed to ensure invoice integrity and authenticity?
   No. Standard W3C XML Digital Signatures are mandatory. Digital certificates are issued by several authorized Brazilian certification authorities.

7. Do these requirements cover other documents as well?
   Yes. In addition to the invoice, a DANFE/DACTE document (a simplified graphical representation of an NF-e/CT-e) is needed for tracking goods in transit.

8. Are there constraints in relation to archiving?
   Yes. Invoices must be stored electronically in their original format. In case of contingency, the DANFE/DACTE also must be stored. Outsourcing is allowed. Storage abroad is not explicitly regulated. Online access and download capabilities or offline access for tax authorities have to be assured.
Additional Resources on e-Invoicing

- e-Invoicing Basics: www.einvoicingbasics.co.uk
- Billentis Report: www.gxs.com/resources/research
- Trustweaver White Paper: www.trustweaver.com/knowledge
- www.gxs.com/products/active_applications/invoicing_payments/active_invoices
Thank you!

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