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**Promoting electronic invoicing across UK businesses and the public sector**

**Response by the Chartered Institute of Taxation**

## 1. Executive Summary

1.1. The CIOT supports the move to e-invoicing, as part of the UK Government and HMRC's commitment to a 'digital first' tax system. One of the key lessons from recent years, including the prolonged roll out of Making Tax Digital, is that the landscape is going to change regardless of what the UK Government does, and there is a danger that the UK get left behind if it does not deliver e-invoicing effectively.

1.2. UK and non-established businesses are currently able to use e-invoicing on a voluntary basis, with HMRC not taking any active role in promoting or setting any e-invoicing specific standards. Take-up of e-invoicing by UK businesses for domestic use is currently limited. Ultimately the decision to adopt voluntarily, will be based on a cost/benefit analysis. If the UK Government desires greater adoption of e-invoicing without mandating its use, HMRC will need to consider a package of options to encourage voluntary adoption. This may include an educational and training campaign, financial incentives, providing a better business experience and effective implementation and systems that instil confidence to move along the digital journey.

1.3. A single UK standard for e-invoicing, which aligns with international standards, will also encourage adoption. There is a difficult balance to be struck here between standardisation, alignment with international standards and dealing with the complexities of the UK tax system. There are both other UK legislative requirements for invoices and invoicing practices which are used by different businesses/sectors. To deal with such complexities is going to require a degree of flexibility in the standards, and detailed consultation during the development of the standards. Some complexities for consideration include:

- The VAT legislation that sets out the requirements of VAT and electronic invoicing must be considered when designing the standard for e-invoicing, so that the rules for both can be easily adhered to by businesses. The standard will need some flexibility in order to accommodate the variety of invoicing documents set out in the VAT legislation, as well as consideration of the additional legends for certain VAT schemes, agreements with trade bodies or international trade.

- Supplies that are currently zero-rated, exempt from, non-business or outside the scope of VAT do not require a VAT invoice but may become subject to any future e-invoicing requirements, so HMRC need to engage with businesses and agents about any potential impacts.
- The VAT legislation for electronic invoicing allows the customer to reject the use of e-invoicing, which may result in the need for VAT legislation change, depending on the outcome of the e-invoicing consultation.
- HMRC require businesses to submit VAT invoices to evidence VAT claims or as evidence of trade, for example, VAT return queries, error corrections, international VAT recovery claims, or VAT registration. E-invoicing might provide an opportunity for HMRC to be provided access to this information in a more seamless fashion.
- Any invoicing requirements relating to devolved taxes.
- Subcontractors under the Construction Industry Scheme often choose, as good practice, to show the split their invoices between labour and materials or include a note to that effect on the invoice.

1.4. The alternative to building in flexibility in the standards, would be to identify whether e-invoicing can be part of a wider programme of tax simplification, something we could strongly encourage. Our current understanding is that HMRC have no scope to use e-invoicing as a driver for wider simplification.

1.5. Whilst we are generally supportive of e-invoicing, and in particular a move to encourage increased voluntary adoption, we do have concerns about a move to full mandatory e-invoicing (particularly from the outset of the e-invoicing digitalisation project). If there is to be a mandate, there needs to be:

- real benefits of mandating for HMRC and UK businesses;
- a sensible, realistic and agreed timeline for implementation;
- clear and honest communications and guidance and
- alignment with wider UK tax policy.

1.6. If the UK Government decide to mandate e-invoicing, we would agree that it is correct for the UK Government to focus, at least initially, on a decentralised model. Building a centralised model would be a huge project, requiring significant levels of resource and investment. Without even considering e-invoicing, the UK Government has an ambitious ongoing project to develop underlying IT infrastructure and CRM functionality, to facilitate the creation of the ‘Single Customer Account’. It is better to take a realistic approach to e-invoicing and deliver a project which works well and delivers real time record keeping (which MTD does not) as a foundation for future changes. The project needs to be realistically costed upfront for both HMRC and taxpayers, for those costs to be proportionate and with a certain though not overly ambitious delivery timeline to enable businesses to budget and plan.

1.7. To take account of the breadth of UK businesses, anything from a UK multinational corporate to a landlord with one property, we recommend the UK Government gives serious consideration to the use of thresholds and phased implementation to cascade such significant digital change over a sensible timeframe, though we acknowledge that this may add complexity. This also allows the UK Government to obtain increased real data on the impact of the use of e-invoicing, which can inform its decision making on e-invoicing.

1.8. For somebody who may only have a handful of transactions per year, there may be a disproportionate cost of software, and currently, those costs of software may not be known or transparent.

1.9. Any wider visions for centralised models or real time reporting should be built into HMRC's digital strategy, and roadmap to deliver this strategy but there should be a realistic and transparent approach to this timeline. If HMRC do decide to move towards any form of reporting to HMRC, such a project should be aligned with other reporting schemes, or at the very least, aligned with HMRC's direction of travel for its 'digital first' strategy. For example, a reporting scheme should have a consistent use of a tax identification number – a topic which is being explored within other HMRC consultations.

1.10. If HMRC decide to mandate e-invoicing there needs to be careful consideration of exemptions. HMRC's criteria for voluntary and automatic customer digital exemption should be considered with the interaction of any future mandatory e-invoicing (paras 8.34-8.35 and 10.8). Consideration also needs to be given to how exempted businesses interact with those who aren't exempted – if a supplier is exempt, what does this mean for their customers (who aren't exempted)? How will this work in practice?

## 2. About us

2.1. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

2.2. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

2.3. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

2.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

## 3. Introduction

3.1. The CIOT is pleased to provide a response to the UK Government's consultation Promoting electronic invoicing across UK businesses and the public sector. We welcome that this consultation has commenced at stage one of the tax consultation framework for the development and implementation of tax policy. Should the UK Government decide to proceed with any aspect of e-invoicing, further consultation will be necessary to advance the detailed e-invoicing policy design.

3.2. The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity, and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response.

3.3. Given our role as a professional body dealing with all aspects of taxation, our consultation response is focussed on tax policy and tax compliance. Our response does not include any specific business data.

3.4. Our stated objective for the tax systems include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

## 4. About you

4.1. ***Question 1:*** The CIOT is responding to this survey as a representative body. Our members are tax professionals working in practice, in-house, legal and public sector environments.

4.2. ***Question 2:*** We are based in the UK.

4.3. **Question 3**: The views offered in the CIOT's response are a combination of our own and our members' views. However, they are made in pursuance of our charitable objectives set out above.

## *5. Other*

5.1. ***Question 9: Please provide any further information about your organisation or business activities that you think might help us put your answers in context.***

5.2. The CIOT has had long term representation on HMRC forums such as Making Tax Digital for both VAT and Income Tax Self Assessment, and the Agent Digital Design Advisory Group, so we have engaged extensively with HMRC on policy making for their digitalisation strategy for many years. Our engagement is informed by our members and volunteers who are tax professionals working in practice, in-house, legal and public sectors and academia.

## 6. Your knowledge of e-invoicing

6.1. ***Question 10: What is your interest in e-invoicing?***

6.2. 'Other': we are a professional body representing taxation specialists.

6.3. ***Question 11: Prior to this consultation, were you:***
   - ***aware of e-invoicing and a current user***
   - ***aware of e-invoicing and a previous user who has since ceased using e-invoicing***
   - ***aware of e-invoicing, but chose not to adopt***
   - ***unaware of e-invoicing***

6.4. The CIOT and its members are aware of e-invoicing. The level of use by our members will be mixed: some members will already be using e-invoicing, some will be advising on e-invoicing in the UK and other territories but not using it in their own workplace, and some will not advise on it or use it themselves.

6.5. ***Question 14: If you were previously aware of e-invoicing but have chosen not to adopt, could you explain why?***

6.6. There are many reasons for not adopting e-invoicing currently, including:

- The accounting software provider does not offer e-invoicing yet
- The accounting software provider offers e-invoicing as an additional service, but:
  - There would be an increase in the cost of the software which cannot be currently justified
  - Implementation would increase the cost and time of training staff/customers
  - Implementation may require a change in contractual terms with customers/suppliers
  - Either none or few customers/suppliers are using e-invoicing so no pressure or demand to change
  - Customers/suppliers have told the business that they do not want to make the switch to e-invoicing for their own accounting software yet
- No pressure to change as there is a voluntary position in the UK
- No pressure from overseas suppliers/customers to change
- Limitations on digital confidence/ability within available resource
- For some large and complex organisations, they may run several accounting systems (including old and highly niche software), the software integration issues can be very complicated with long lead-in times requiring niche specialist software engineers (similar issues occurred for the digital links requirements for MTD for VAT)
- Individual in business holds a digital exemption for HMRC purposes (granted via a request or automatically – see para 8.34)

## 7. Policy Objectives

7.1. ***Question 18: Do you think there are any other benefits and priorities on e-invoicing that government should focus on?***

7.2. The consultation document notes that an increasing number of countries require e-invoices for at least some transactions, with the UK currently having no standard accepted model for e-invoicing. Helping future proof UK businesses' ability to transact cross border in a seamless manner (supporting growth of UK businesses) should be another priority / benefit.

7.3. In theory, we generally agree with the policy benefits listed in the consultation document however, any HMRC communications on benefits should be evidence based – based on feedback from UK businesses, of all sizes, who have used or tested e-invoicing before this messaging is widely used as a hook to encourage adoption. HMRC should take a realistic and transparent approach to their messaging on the benefits of e-invoicing, particularly if the decision is made to proceed with an e-invoicing mandate from the outset. There is a wide breadth of businesses in the UK, and the 'benefits' to them (if any) of e-invoicing will vary. For example, e-invoicing may not result in customers paying more quickly and it may result in additional financial and resource costs for some businesses. If HMRC's messaging is not based on direct experiences of UK businesses with clear evidence of the impacts on, and potential benefits for, different types/size of business, then there is a real risk that UK businesses lose engagement with e-invoicing. Until HMRC has sufficient feedback/evidence from UK businesses, messaging around benefits should focus on more tangible benefits such as minimising human error, real time record keeping, clear and consistent data, reducing the risk of fraud and helping promote the ability for UK businesses to trade with overseas businesses.

7.4. Regulation 13A(2) of the VAT Regulations 1995 allows a VAT registered customer to reject the use of e-invoicing for VAT invoice purposes, so considering this legislation should be a priority. See para 7.6 below.

7.5. ***Question 19: What data do you think is important for a standard to include, and do you have any preference over the structure of information?***

7.6. There is legislation and HMRC guidance that sets out the obligations of when a business must provide a VAT invoice. Part III of VAT Regulations 1995 sets out the rules for when a VAT invoice is required, the contents of VAT invoices and other invoicing requirements. Any standard and structure for information in respect of e-invoicing must take account of all the legal requirements detailed in regulations 13 to 20, or consultation must take place on whether and how they should change. This includes variations to the usual VAT invoicing, such as self-billing, authenticated receipts, credit/debit notes, retailers' and simplified invoices, margin scheme invoices and supplies via intermediaries.

7.7. Regulation 13A already sets out the current voluntary standards for the electronic invoicing of VAT invoices, which includes the right of the customer not to accept an electronic invoice. Any subsequent standard for e-invoicing must take account of regulation 13A, or if compulsory mandation takes place, this regulation will need to be amended accordingly. HMRC has guidance on e-invoicing in its VAT notice 700/63 'Electronic invoicing' and the VAT Traders' Records Manual, with the latter having a section dedicated to computer invoicing at VATREC7000 which should be considered too.

7.8. Regulation 13 obliges a taxable person to raise a VAT invoice only where certain circumstances apply. As one of the aims of e-invoicing is to remove manual processing on all business-to-business transactions, this will include transactions that do not require a VAT invoice, for example supplies that are zero rated or exempt from VAT, as well as supplies that are outside the scope of VAT. If the standard and any structure of information for e-invoicing is linked to the VAT invoicing rules, they must take account of the differing circumstances of when a VAT invoice is or is not required, and this may mean that exceptions are required to the eventual standard and any structure of information for e-invoicing, or that changes will be necessary to the VAT invoicing rules.

7.9. Consideration will need to be given to the position for sectors that do not raise an invoice or similar document, for example bank interest applied to the overdraft of a business bank account.

7.10. HMRC has entered into administrative agreements with trade bodies some of which include invoicing requirements. The standard should take account of whether there are any impacts to the invoicing requirements in such agreements in VAT notice 700/57, should e-invoicing be mandated.

7.11. When a business registers for VAT, it may have to wait for a period of up to 8 weeks before the VAT number is granted by HMRC, but business will still need to raise invoices and be paid by customers in the interim. The standard will need to consider how interim billing documents with no VAT number should be treated for e-invoicing purposes, or if it will only be the subsequent VAT invoice (containing the VAT number) that should be reported via API. Suitable guidance should be provided.

7.12. HMRC and DBP may want to consider whether it is possible or desirable for e-invoicing software to incorporate HMRC's check a VAT number or the EU's VIES service to reduce errors.

7.13. The standard should consider the impact for international businesses that seek to recover UK VAT via an international VAT claim, as set out in VAT notice 723A.

7.14. Any standard or structure for data should also take account of invoicing requirements in other tax legislation and HMRC guidance. Some examples include domestic reverse charge for construction, pro-forma invoices, requests for payments and the ability to facilitate those. Legislative requirements for invoices, may be included in devolved tax legislation. For example, the Scottish Government consultation on the Scottish Aggregates Tax administration regulations, included draft legislation which would mandate the data which is included on an 'aggregates invoice', including the possibility to show the Scottish aggregates levy separately with a statement to confirm the Scottish aggregates levy should not be treated as input tax. Scottish ministers also have the power within The Visitor Levy (Scotland) Act 2024 to specify by regulation the requirements for the billing of overnight accommodation, including specifying the Scottish visitor levy separately.

7.15. There may be additional information that UK businesses currently include on their invoices, which is not mandated by legislation but streamlines and eases their interactions with customers. For example, subcontractors under the Construction Industry Scheme often choose, as good practice, to show in their invoices the split between labour and materials, or include a note to that effect on the invoice. Whilst we do not think that such requirements should be specifically mandated within e-invoicing standards, particularly where not mandated elsewhere currently, it would be preferable that e-invoicing standards enable the optional inclusion of additional information within an e-invoice to streamline communications with customers and reduce administrative burden.

7.16. Our comments above focus on the 'data' that should be included in an e-invoice. However, it is also important that e-invoicing standards cover the processes around the issue and receipt of e-invoices. Clear processes for cancelling and reissuing invoices (there are many day to day reasons for doing so such as correcting errors or changing invoice details), are important to ensure there is a clear audit trail where there are invoice changes. This is particularly important if there is to be any form of reporting through to HMRC.

7.17. It is important to note here that our comments above are generally drafted on the basis that an e-invoicing standard would be drafted to 'fit' with other areas of tax legislation. There may however be some changes required to other areas of tax legislation to accommodate e-invoicing, or changes to other areas of tax legislation is preferable – Regulation 13A, discussed above, is one example. Perhaps the introduction of e-invoicing is an opportunity to think 'bigger picture' and deliver some degree of tax simplification but considering broader rule change which may be harder further down the line if e-invoicing standards/legislation are drafted to fit around existing rules and complexities.

7.18. Either way, detailed consultation is required on any legislative change, whether specifically in e-invoicing standards/legislation or changes being made to other areas of legislation. There will also need to be a careful and detailed work through of HMRC guidance to ensure that everything is aligned, also in consultation with key stakeholders.

## 8. Models and approaches

8.1. ***Question 22: Do you have any suggestions on how the government could support increased adoption under a voluntary system.***

8.2. The decision as to whether a UK business adopts voluntary e-invoicing currently may be commercially driven. For smaller businesses, the cost saving generated by e-invoicing functionality, will need to outweigh the likely increase in software costs. Within the software market, we have generally seen steady increases in software prices and continue to do so. In addition, we have seen through the adoption of Making Tax Digital for VAT and Real Time Reporting for PAYE that software companies can offer low initial prices (usually with some limit on the number of transactions or functionality), with ‘add on’ charges added later for additional functionality or capacity. Where software provider fees have (or are perceived to have) a disproportionate impact on small UK businesses, in terms of cost and resource, it is likely to deter voluntary adoption. And for UK businesses who have bespoke systems, the adoption of e-invoicing could result in significant one-off adoption costs to make changes to their bespoke systems, which may impact the decision to join voluntarily. Research and transparency by HMRC as to the expected/estimated costs would enable businesses to factor these into decision making as to whether to adopt as well as enabling later assessment as whether the software industry is keeping costs proportionate and in line with policy intent.

8.3. The UK Government could consider some or a combination of practical ways to encourage increased adoption under a voluntary system:

8.4. **A single UK standard to provide clarity on e-invoicing requirements**: Providing a single, clear set of standards provides transparency on requirements and should encourage business adoption and confidence in the software market to develop products.

8.5. **Provide incentives to encourage voluntary adoption**: In Budget 2000, the government announced discounts to incentivise the uptake of e-commerce, and HM Customs & Excise (as was) were successful in increasing the voluntary uptake of declaring and paying VAT returns electronically due to the granting of an additional 7 days to the due date for submission and payment (though businesses on the payments on account scheme are not given this concession for their interim VAT payments). The UK Government could consider using a similar incentivisation for voluntary e-invoicing, for instance extending this filing and payment deadline to ten days if you switch to e-invoicing (though we note that businesses on direct debits for VAT payments already have their payment taken on the tenth day). The UK Government could consider offering targeted financial support, such as start-up grants to help compensate for initial implementation costs.

8.6. **Educational campaign**: The UK Government could consider the use of an educational campaign to inform UK businesses of the key features and benefits of using e-invoicing. Care needs to be taken that any ‘promotional’ element of such a campaign provides honest messaging of benefits of e-invoicing (as discussed elsewhere in this response) and the expected costs. This could include the UK Government considering the provision of training to help build business confidence to adopt.

8.7. **Provide a better business experience**: New digital services should deliver efficiencies and better functionality than the systems they replace. The true benefits of e-invoicing should be better promoted and voluntary uptake encouraged via marketing campaigns and business support and education. While the availability and cost of software could be limiting factors to smaller businesses, in many cases the benefits could still outweigh the cost.

8.8. **Mandate business to government transactions**: If only business to government transactions are mandated, with business-to-business trading left as voluntary, we would anticipate that this should still increase the use of voluntary e-invoicing for businesses who also supply non-government business customers. It would seem less likely that businesses will want to run parallel invoicing systems once they are part mandated to use B2G e-invoicing, although some practicalities would need addressing (such as a de minimis limit for one-off B2G supplies) to prevent e-invoicing inhibiting doing business.

8.9. **Seamless, integrated software availability**: In time, as the developments in underlying IT infrastructure at HMRC and the software market allow, e-invoicing software should become integrated into existing digital products. Ideally, a UK business would have one software programme that allows them to enter their data once and meet numerous accounting, tax and administrative obligations. Having this functionality seamlessly built in would increase adoption, and although this will naturally evolve over time, the UK Government can consider how it could incentivise the software market to increase the availability of e-invoicing functionality within its existing products.

8.10. **Effective implementation that instils confidence**: There needs to be confidence in the e-invoicing project and systems to encourage voluntary participation. Poorly designed systems and processes lead to significant implementation problems, deterring voluntary participation. Several recent digital projects have suffered issues with functionality, agent access and poor implementation, which deters voluntarily signing up for a further new digital project. To instil confidence in e-invoicing, there should be a strong focus on delivery e-invoicing effectively – detailed consultation, co-creation, thorough testing, and a process of post implementation evaluation. The CIOT and the Association of Tax Technicians have previously published seven 'Principles of Tax Digitalisation', which we believe should be used as a benchmark against which digital tax projects should be delivered. If HMRC are to deliver their own e-invoicing software, we believe that they should do so in accordance with agreed minimum standards. The CIOT has previously communicated to HMRC what we believe should be the minimum standards which should be applied by HMRC.

8.11. **E-invoicing minimum functionality standards**: It may be that HMRC take the decision not to develop HMRC e-invoicing software, like we have seen with Making Tax Digital for Income Tax. This inevitably results in HMRC taking a step back from stewardship over digital tax systems, placing trust in third party companies to deliver products of a sufficient standard. Whilst this is not in itself an issue, it is important that HMRC put in place minimum functional standards to ensure there are clear standards around the operability, security and accessibility of data for taxpayers. Minimum functional standards provide protections to taxpayers and will be of primary importance as we move to a 'digital first' HMRC.

8.12. **A clear direction for the future of e-invoicing**: It is important that there is a clear vision (which has been discussed with key stakeholders beforehand) at the outset as to the scope and objectives of e-invoicing. This would include a clear picture of what third party software providers will be asked to develop, providing confidence to the software market to develop products – increasing the diversity of products available. A clear vision at the outset would also help inform what should be included in minimum functional standards. With Making Tax Digital for Income Tax, we have raised concerns with HMRC around the content of the minimum functionality standards, following the late and unexpected decision that HMRC would not develop an end of year submission service. Had this been the vision at the outset, our view on the content of the minimum functionality standards may have differed. If UK businesses have a clear picture of when they need to comply, they may choose (subject to software availability, cost/benefit analysis and other incentives) to adopt early.

8.13. ***Question 23: Do you have any observations, concerns, or recommendations on a move to mandatory e-invoicing for Business-to-Business or Business-to-Government domestic transactions?***

8.14. Whilst we are generally supportive of e-invoicing, and in particular, a move to encourage increased voluntary adoption, we do have concerns about a move to full mandatory e-invoicing (particularly from the outset of the e-invoicing digitalisation project). If there is to be a mandate, there needs to be:

- real benefits of mandating for HMRC and UK businesses;
- a sensible, realistic and agreed timeline for implementation;
- clear and honest communications and guidance and
- alignment with wider UK tax policy.

8.15. **Real benefits for HMRC**: In terms of benefits to HMRC, there needs to be transparency as to the 'problem statement' that e-invoicing will fix, and this transparency should inform the discussion on whether there should be mandatory e-invoicing. Is it that e-invoicing will help to close the tax gap? We have asked for more granular data on the tax gap from HMRC. For example, HMRC attributes approximately 60% of the tax gap to 'small businesses', but the definition of 'small' (up to £10m turnover and 20 employees) results in 95% of UK businesses being treated as 'small'. Such a broad spectrum does not help identify where the main problems lay, and sharing more data by turnover levels, sectors, behaviours etc would enable a better understanding and allow all parties to focus on the areas of greatest concern. This information is vital for stakeholders to assess whether e-invoicing will indeed help to close the tax gap.

8.16. **Real benefits to UK businesses**: Will e-invoicing place an onerous additional burden on businesses? This is a particularly difficult question to answer given the wide breadth of businesses with the UK. Business could mean anything from a large multinational corporate to a landlord with one rental property, with significant differences in size and digital ability. The cost/benefit analysis will be very different for different businesses, and it is vital that the UK Government understands what this looks like for all UK businesses before mandating e-invoice.

8.17. We anticipate that smaller businesses could be disproportionately impacted, particularly at the outset of e-invoicing, by increased subscription costs to include e-invoicing functionality or the purchase of new software or API functionality from a third-party provider (if their accounting software provider does not offer e-invoicing functionality).

8.18. Consideration should also be given to the e-invoicing position for businesses that mainly supply on a business to consumer basis, with only infrequent or occasional business to business transactions, which could include medium and large sized businesses.

8.19. **A sensible, realistic and agreed timeline for implementation**: Given the wide breadth of businesses in the UK, the UK Government needs to take a nuanced approach to e-invoicing– one mandate and one implementation date will not fit all UK businesses. The UK Government could consider either a phased approach to e-invoicing or a threshold approach to e-invoicing. Sufficient time must be built in for thorough testing and we note that the 2006 Carter review of HMRC online services stated in recommendation 23 is still relevant: *'We recommend that as part of their work to deliver robust, high-capacity services HMRC should build in more rigorous testing. Each of the services should be capacity tested at least a year before our recommendations are implemented, and if any tests are not successful the measures relating to that service should be deferred.'*

8.20. The UK Government could consider a phased approach to an e-invoice mandate, perhaps with implementation for the largest businesses first (some of which may already be using e-invoicing for overseas trade). Implementation could then be cascaded to smaller businesses over a clear and agreed timeframe.

8.21. The UK Government could also consider a threshold approach to an e-invoicing mandate, which would also likely need to be paired with a phased approach to implementation. Should a mandate be linked to UK VAT registration thresholds, MTD thresholds or perhaps another criterion? The UK Government will need a detailed understand of the cost/benefit analysis to HMRC and UK businesses to inform this decision. Any decision around thresholds, and phased implementation, should be supported and reevaluated by data/evidence collected during the consultation period. Phased implementation will help the UK Government collect data on the operation of e-invoicing before cascading across all UK businesses. With MTD we saw the announcement to decrease the threshold to £20,000, before MTD has even been rolled out to those above the £50,000 threshold, pre-supposing that it will deliver on its objectives before it had even started. As businesses need certainty to be able to plan, we recommend that any timelines are not overly ambitious to reduce the risk of changes and delays in implementation.

8.22. **Clear and honest communications and guidance**: A sensible, realistic and agreed timeline also needs to be communicated clearly at the outset and as much as possible, adhered to. The effectiveness of communications is intricately linked with how realistic the agreed timeline is. Essentially, we want the UK Government to avoid setting too ambitious a timetable (by not listening to feedback) and then delaying implementation once people have spent time and money to begin preparations. Unfortunately, we have seen this most recently with MTD and mandatory payrolling of benefits. These are clear examples of how not to approach timelines and communications.

8.23. We appreciate developing guidance takes time, and guidance continually needs updated but it is important that there is sufficient lead in time for HMRC to develop all foundations of guidance before UK businesses start preparing – there should not be obvious gaps in guidance in the lead up to implementation dates.

8.24. **Alignment with wider UK tax policy**: It is important that if the decision is made to proceed with mandatory e-invoicing, this decision is aligned with other areas of tax policy and digital projects. Currently, there are no timescales as to when partnerships and companies may need to comply with Making Tax Digital. One of the main objectives of Making Tax Digital for Income Tax was to mandate the keeping of digital records, with quarterly submissions being to evidence digital record keeping. Mandating e-invoicing will result in UK businesses, including partnerships and companies, keeping and sending digital invoices in real time (which MTD does not deliver). In light of this, we would recommend that HMRC take an overall view as to the combined impact of differing policy objectives. The UK Government should consider whether the evolution of the UK and its digital landscape warrant the decision to not proceed with MTD for companies and partnerships, especially if the models in their current form do not sit strategically (or practically) with e-invoicing.

8.25. The UK Government has committed to a ‘digital first’ strategy. Ideally the UK Government should have one digital strategy, and one roadmap to deliver this digital strategy, with programs such as MTD and e-invoicing designed to co-deliver aspects of the overall strategy.

8.26. If a decision is made to mandate e-invoicing there will need to be further discussion and consultation around whether there are penalties for failure to comply, and what such penalty regimes look like. Careful consideration also needs to be given to how points of failure are dealt with, particularly where full reliance is placed on third party software providers with no HMRC software available as a backup.

8.27. ***Question 24: If the UK was to introduce a mandate, how long would you need to implement e-invoicing in your operations?***

8.28. We welcome that this question is being asked, as this is another key learning point from Making Tax Digital.

8.29. The lead in time will vary depending on existing IT infrastructure, digital systems, sectors and business size – HMRC need to understand the full timelines for different business sizes and sectors. From this understanding of timelines, HMRC need to build (and agree with key stakeholders) a plan to implementation which allows for engagement, co-creation and robust testing (perhaps making greater use of sandbox testing). It may well be that mandating with thresholds or staged implementation is required to allow the software market the time to develop and enable robust testing prior to implementation.

8.30. Although the question is aimed at businesses themselves to indicate a timeline, there are many examples of phased introductions from other countries over a period of several years. For example, in April 2023, Germany published its proposal for e-invoicing and then went on to introduce a mandate requiring all businesses to be able to receive e-invoices for purchases by 1 January 2025, with phased introduction of the e-invoicing of sales in 2027 and 2028, depending on business size. The five-year phased approach taken acknowledged that businesses would incur costs and require resources to make all the required changes. We recommend that the UK's introduction takes a similar approach (while not needing to be identical) ie phased introduction and over several years. If the UK Government decides to mandate e-invoicing in summer 2025, if we compare the German timescales above as a comparison, this would results in phased mandation milestones in spring 2027, 2029 and 2030.

8.31. Clarity at the outset of the e-invoicing project over scope, functionality and timelines is crucial. The requirements for Making Tax Digital for Income Tax, have changed many times since its announcement, even as late as a year before implementation. This has had a significant impact on the software market in terms of product development, and uncertainty for agents and taxpayers in terms of preparedness. Any introduction of e-invoicing should avoid these continual changes in scope, which is best achieved through thorough and effective consultation.

8.32. ***Question 25: What would present a significant barrier to you complying with a mandate?***

8.33. As discussed above, a business could include anything from a multinational company to a landlord with a single property. The barriers to complying with a mandate will vary depending on the profile of the business and the UK Government needs to understand the barrier across the breadth of UK businesses. Some barriers could include:

- **Digital capability** – due to availability of reliable internet access in particular locations within the UK and the availability of software to deal with all the complexities of the UK tax system (and ideally integrates seamlessly with the businesses' existing software).
- **Digital sophistication** – current ability and confidence to use digital tools. This will depend on the extent UK businesses have had digital education and prior experience of using digital tools. It is important to remember that being able to use IT equipment and digital apps for everyday tasks, does not equate to having the digital skills and confidence to use digital software to communicate, transact and record all business transactions. Whilst the software market continues to develop ever more user-friendly software, and will continue to do so, there remains a degree of upskilling required to use and understand digital software for business and tax transactions. To reduce error, software must be used accurately. It is incorrect to assume that complying with Making Tax Digital is evidence of digital capability, as it is possible to hand paper receipts to an agent to ensure compliance with Making Tax Digital.
- **Upfront cost of implementation** – including both obtaining compatible software for those businesses that are predominantly still paper based and the upgrading of bespoke software to add in e-invoicing functionality (both financial cost and resource required to upgrade and train staff).

- **Ongoing software costs**– particularly for small businesses, where the cost of software may become a significant burden. We discuss in point 8.3 the general increase in software prices that have been seen in the market, and the issues that have been seen with additional charges for 'add ons' or increased frequency of transactions.

8.34. It is important that consideration is given to exemptions from e-invoicing for the digitally excluded from an early stage in the policy development to provide clarity to exempted groups of taxpayers. Digital exemption for Making Tax Digital is automatically granted by HMRC in certain circumstances:

VAT

- The individual or business are subject to an insolvency procedure
- The VAT registration is cancelled but the final return is still to be submitted

Income Tax Self Assessment

- trustee, including a charitable trustee or a trustee of non-registered pension schemes
- person that does not have a National Insurance number
- personal representative of someone who has died
- Lloyd's member, in relation to their underwriting business
- non-resident company

Should the UK Government decide that e-invoicing will be mandated for businesses, we recommend that future consultation on e-invoicing considers all the above variations in existing reasons for digital exemption as a bare minimum and to what extent (if any) they will impact the obligation to use e-invoicing. Further assessment of the impact of e-invoicing across the breadth of UK businesses, and the availability of software products, is required to determine whether further exemptions are required.

8.35. An additional complexity of exemptions for e-invoicing is the interaction between those who are and are not exempted. If you are exempted as a supplier from using e-invoicing, how does that affect you as a customer? This complexity also applies to phased and thresholds approaches to an e-invoicing mandate – if your suppliers use e-invoicing but you don't, how will that work? There are complexities that need to be consulted on and considered in detail.

8.36. ***Question 26: Given the information provided and your own knowledge, do you think it is correct for the government to focus on a decentralised model over a centralised model?***

8.37. Yes, we would agree that it is correct for the UK Government to focus on a decentralised model. Building a centralised model would be a huge project, requiring significant levels of resource and investment. Without even considering e-invoicing, the level of resource and investment required to upgrade HMRC's IT infrastructure is already significant. The scale of the task to connect or transition HMRC's numerous legacy systems to a platform that can facilitate the creation of the 'Single Online Account' or 'Single Customer Account', which was part of HMRC's Tax Administration Strategy released in July 2020, remains a key current day challenge for HMRC. It feels like adding the build of a centralised e-invoicing system, would add another complex task to the already significant list of long term IT infrastructure projects, when it is possible for the UK Government to obtain many of the benefits of e-invoicing without having to build a centralised model.

8.38. However, as outlined above, this comes with the caveat that there must be a strong focus on robust standards, adequate minimum functionality and delivering the e-invoicing project in a way that also maximises the benefit to UK businesses.

8.39. Data security is of concern to users of e-invoicing. This would be heightened with a centralised model, as several of HMRC's systems have come under attack by criminals in the past, and occasionally hacking attempts have been successful. We have also seen an increase of attacks on Agent Services Accounts in recent weeks, so this remains a very real risk that HMRC are having to deal with.

8.40. Some businesses have experiences of being delayed by government portals being down, for example, the Goods Vehicle Movement Service or the Customs Declaration Service, which can result in severe consequences for businesses and their customers. A centralised model could result in a single point of failure, with all UK businesses being unable to raise e-invoices during periods of governmental system outage; rather than just the users of a particular software provider.

8.41. In future consultation it would be useful to understand whether a centralised model portal will continue to be developed, should a decentralised mandated e-invoicing model be adopted. There could be scope for anti-fraud use of a centralised model in some circumstances:

- Business to government contracts
- Individuals subject to criminal or civil prosecution for deliberate concealed behaviour

8.42. ***Question 28: What are your views on an e-invoicing system with real-time reporting for Business-to-Business and Business-to-Government transactions?***

8.43. Effective real time reporting that enables HMRC to make the best use of the data (such as pre-population of returns and effective analysis of data for nudges, prompts and compliance activity), would require HMRC to have back-end IT infrastructure and systems which are either all connected or all transitioned onto a single CRM platform, which brings a taxpayer's information into one Single Customer Account. Effective data matching would also include consistent and effective use of a tax identification number for taxpayers. As discussed above, the scale of the project to achieve both of these is already significant.

8.44. Therefore we are of the view that exploring the inclusion of a data feed should not be an immediate priority. That is not to say, that this should be taken off the table altogether, but it would be better to get a deliverable e-invoicing project up and running that delivers digital record keeping in real time (bearing in mind that Making Tax Digital for Income Tax, and VAT, do not actually deliver real time recording).

8.45. If the UK Government's digital strategy includes a move to real time reporting, this needs to be an over-arching objective when designing current tax policy and digital systems currently so that in time, this becomes a much more feasible project. There remains some long-standing unresolved issues with real time reporting for PAYE (RTI) and the UK Government should make sure it does not end up in the same position here. There are key learnings from RTI that can inform the development of real time reporting.

8.46. As noted in para 6.7, under the current VAT rules not all business to business (or government) transactions require a VAT invoice. The UK Government would need to consider how the current VAT invoicing rules would interact with e-invoicing in a real time reporting model for different types of billing documents.

8.47. ***Question 29: Would any additional services support your businesses activity (such as nudges and prompts or potential future use to pre-populate VAT returns)?***

8.48. Nudges and prompts and pre-population would of course be welcome. Effective additional services such as nudges and prompts and pre-population will come from effective real time reporting or developments in software to read and categorise an invoice effectively. This will require investment and time, either for HMRC and/or the software market to deliver the IT infrastructure and digital systems/software. Therefore, we do not feel that additional services such as these should be a priority at this time. It is better to deliver an e-invoicing project that delivers real time record keeping (which MTD does not do), and works effectively. This can be used as a foundation for future changes.

8.49. It is important that any digital system provides the option for an agent to see and do everything that their client can – this involves ensuring that there is full agent access built into HMRC systems and software from the outset. If the development of all e-invoicing software will be undertaken by third parties, the inclusion of agent access should be built into minimum functional standards to ensure this is provided consistently across the market. Agent access is important (and forms part of HMRC's charter standards) if a taxpayer wishes to engage a book-keeper or accountant to help them handle the administrative, accounting and tax obligations. It is also important so that an agent can provide additional support in correcting errors, or dealing with particular complexities, at relevant points in time. And more generally, so an agent can have better visibility of the information that their clients send to HMRC.

8.50. In time, as the developments in underlying IT infrastructure and the software market allow, we would also welcome streamlining the accounts and tax reporting requirements for businesses – perhaps ideally, one software programme that allows the business to enter their data once and meet numerous tax and administrative filing obligations (or as few software programmes as possible). Currently, it is possible that a UK business may have numerous different software packages to meet the different tax filing requirements – PAYE Real Time Information, Making Tax Digital for VAT and moving forward Making Tax Digital for Income Tax. E-invoicing may add a further requirement for different software. It is important to allow the software market the time it needs to develop additional functionality so that UK businesses don't end up with a complicated picture of different software packages.

8.51. There may be potential for in-software nudges and prompts without real time reporting - eg if an e-invoice can be automatically categorised for MTD ITSA purposes or if technology can read an invoice and suggest that there may be a particular tax treatment (eg identify plant and machinery spend and prompt for capital allowances) - this is an area that would benefit from early open engagement with agents and particularly software vendors

8.52. ***Question 30: Thinking about all the models and approaches discussed, which best meets the policy objectives listed at the beginning of the document and any others you may have identified?***

8.53. Currently, the UK has voluntary e-invoicing however there are no set standards or generally accepted models for its use in the UK, other than those set by NHS England for its suppliers. The CIOT supports the introduction of e-invoicing standard, which is a critical step to ensure the UK does not get left behind in terms of its digital evolvement. E-invoicing standards would provide clarity to UK businesses and the software market, cements interoperability (which may also encourage further diversity of products in the market) and ultimately help UK businesses to continue to trade internationally without additional costs or disruption.

8.54. The CIOT also supports the UK Government considering measures to encourage voluntary adoption. Ultimately, UK businesses are likely to adopt a cost/benefit approach to their decision as to whether to voluntarily adopt e-invoicing. It is important to bear in mind that there is a wider backdrop of digital changes, some of which also require new software and it is likely that experience, both in terms of costs and the success of implementation, will play a part in the decision as to whether to voluntarily adopt.

8.55. With this in mind, we can see why it may be necessary for the UK Government to mandate e-invoicing to increase take up. However, we caution a move to full mandatory e-invoicing (particularly from the outset of the e-invoicing digitalisation project). If there is to be a mandate, there needs to be real benefits of mandating for HMRC and/or UK businesses, which we have discussed in more detail within our submission.

8.56. If the UK Government is to consider mandating e-invoice, we would recommend that they do so on a phased or threshold basis. There is a wide-breadth of businesses within the UK, from large multinational corporates to landlords with one rental property – one size will not fit all and a mandate across all UK businesses could create unnecessary cost and administrative burdens currently.

8.57. Given the scale of investment currently required to upgrade HMRC systems, we feel it is sensible to explore a decentralised model of e-invoicing, particularly for now.

8.58. It is also important that there is a realistic approach taken to the policy objectives – delivering real time reporting (which is not required for Making Tax Digital for Income Tax) to help improve tax compliance; driving cost and administrative resource savings for UK businesses and help to ensure that the UK evolves digitally to continue trading effectively with overseas businesses. Whilst additional services would be welcomed, we would caution exploring these further at this point in time. It is always possible to explore such additional services at a later point in time when IT infrastructure, software availability and appetite to join e-invoicing has all increased.

8.59. With any decision around models or approach to e-invoicing, we would strongly recommend that the e-invoicing project is delivered in accordance with agreed principles and standards, co-created with key stakeholders, subject to thorough testing and followed by a detailed plan of evaluation.

## 9. Support and engagement with business

9.1. ***Question 31: If the government was to move towards one of the discussed options, what support would be needed and how would that change between the different approaches?***

9.2. We recommend that all the options must also consider from the outset the position for agents providing outsourced tax compliance services on behalf of their clients, so that in the event of e-invoicing being mandated in whatever model is decided upon, agents may still be able to support them.

9.3. Businesses would need sufficient lead in time for an e-invoicing mandate, if that is the preferred outcome of the consultation, so they have time to consider all the ways in which the business will be impacted, for example, staff and resources such as software functionality, finance, tax, and the availability of third parties to supply such support services. Consideration should also be given to the capability of the software providers which may impact a business' ability to comply with any potential e-invoicing mandate.

## 10. Next steps

10.1. ***Question 32: Are you content for us to contact you if we have any questions about your response?***

10.2. Yes.

10.3. ***Question 33: Are there other technical issues which you think we should look at further?***

10.4. We note that in the fraud and data security paragraph in the policy objectives, that it considers identity and VAT invoice fraud. We suggest considering whether software fraud could pose a risk, for example, in a similar way to software enabled electronic sales suppression fraud where the data could potentially be manipulated internally prior to the API transfer of the e-invoice.

10.5. ***Question 34: Is there anything else you would like us to be aware of relating to a potential future UK policy on e-invoicing?***

10.6. Although the UK has left the European Union, the e-invoicing position for transactions involving Northern Ireland must be considered under the Windsor Framework for sales of goods. This should be considered for e-invoicing between:

- Great Britain and Northern Ireland and vice versa
- Northern Ireland and the EU and vice versa

10.7. It should be considered how the EU's VAT in the Digital Age e-invoicing programme may or may not impact businesses in Northern Ireland.

10.8. EDI: In the exchequer impact assessment, it states that the consultation does not currently consider there to be impacts to groups sharing protected characteristics at this initial stage, though this position will be revisited once the policy decisions are made. HMRC has existing procedures to consider requests for digital exclusion, which we would anticipate that e-invoicing will also be included should it be mandated in the future. Digital exemption can be granted to individuals from the protected characteristics of age, religion or belief, or disability. Further, digital exclusion can be granted to individuals without protected characteristics such as location causing access to the internet/mobile signal connectivity difficulties or a lack of digital education. We comment further on this at paragraphs 8.34-8.35.

10.9. Environment: We note that in the policy objectives that it states in 'environmental impact' that e-invoicing reduces the carbon footprint compared to paper alternatives. It is not clear whether the assessment concluded if there would be any increased energy use, for example, transmission of the API and data storage or if this would impact business energy ratings, though it is beyond our specialism to determine specifics in relation to impact to pollution.

## 11. Acknowledgement of submission

1.1. We would be grateful if you could acknowledge safe receipt of this submission and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

7 May 2025