

# Role of e-invoicing in fight against tax evasion

## 2/43/24



Senior Manager, Tax Reporting, Accounting  
and Strategy, PwC Latvia  
Juris Boiko

Tax evasion is a global problem that seriously threatens the stability of national economies and breeds social inequality. According to the OECD, the tax gap amounts to hundreds of billions of dollars that governments fail to collect each year. This failure limits the affected country's ability to finance key social and economic projects and increases inequality in society. To address this problem, more governments are adopting digital solutions, including e-invoicing, which helps them improve tax compliance and minimise tax evasion.

In this article we look at how e-invoicing helps to fight tax evasion, explore the advantages and challenges of e-invoicing, and offer a few successful international examples.

### What are e-invoices?

E-invoices are invoices in electronic form that businesses exchange digitally using standard data formats. E-invoices replace traditional paper invoices and considerably improve invoice processing. E-invoicing offers several significant advantages:

- *Automation.* Automating the creation, transmission and receipt of invoices reduces the risk of human error and accelerates the invoicing process.
- *Real-time data exchange.* E-invoicing makes for faster exchange of data between buyers and sellers, leading to more efficient payment flows and better financial governance.
- *Standardisation.* E-invoicing uses standardised formats that simplify data analysis and tax monitoring.

### E-invoicing as a solution in the fight against tax evasion

E-invoicing is one of the most effective tools that tax authorities are using to fight tax evasion. Here are the main ways in which e-invoicing helps in this fight:

- *Improving transparency and data accessibility.* E-invoicing gives tax authorities access to real-time data on business transactions. This information helps them monitor tax compliance and identify discrepancies or suspicious business patterns quickly. Tax audits become simpler and more efficient owing to digital traceability.
- *Reducing fraud and invoice manipulation.* E-invoicing significantly reduces the risk of invoice fraud because it uses authentication mechanisms, such as digital signatures and secure transmission of data. Invoice data is automatically checked against tax accounting data to ensure all invoices are authentic and consistent with the tax authority's information.
- *Automated incentives for tax compliance.* E-invoicing systems allow the automation of invoice processing and tax calculations, easing the administrative burden on businesses and increasing their compliance levels. Systems can calculate taxes automatically and ensure

timely submission of invoices.

- *Facilitating real-time reporting.* Tax authorities can use e-invoicing systems to monitor business operations in real time. This gives them quick access to important transactional information and allows them to respond quickly to possible tax breaches. Proactive monitoring helps tax authorities identify high-risk businesses and industries.
- *Promoting the formalisation of economy.* E-invoicing encourages businesses to take part in the official economy because it reduces the percentage of hard-cash transactions, which are often used for tax evasion. Governments can also offer incentives, such as tax allowances, to encourage businesses to adopt e-invoicing.

## Implementation challenges

Despite the many advantages, the implementation of e-invoicing has its challenges. Here are a few significant obstacles that need addressing:

- *Implementation costs.* Many enterprises, especially small and medium, may find it difficult to cover the initial outlay on the purchase of e-invoicing systems and improvements to their training and infrastructure.
- *Digital gap.* There is a considerable digital gap, especially in developing countries, with businesses being unable to take advantage of e-invoicing because they lack adequate digital infrastructure.
- *Data privacy.* Collecting and exchanging large volumes of transactional data causes concern about data security and privacy, which needs to be addressed with clear regulatory measures.
- *Legal framework.* The effectiveness of e-invoicing depends on a clear legal framework and national policies supporting the integration of e-invoicing.

## Successful examples around the world

Many countries have been able to implement e-invoicing successfully, improving their tax collection and reducing tax evasion. For example, Italy mandated e-invoicing for all businesses in 2019, improving its tax collection and reducing fraud significantly. An e-invoicing system has allowed Mexico to considerably increase its tax revenues, while Spain has implemented e-invoicing in the public sector, improving transparency and reducing fraud.

E-invoicing is an indispensable tool in today's fight against tax evasion. E-invoices increase transparency, reduce the scope for manipulation and facilitate corporate tax compliance. While the implementation of e-invoicing requires initial investment and poses a few challenges, the successful examples in other countries show that this system can be extremely effective.

As well as improving tax compliance, e-invoicing makes the business environment fairer and more transparent. Thus we can expect more governments to begin implementing these digital tools to strengthen their economy and promote fair taxation in the future.