# PREPARING FOR E-INVOICING:
# A GUIDE TO COMPLYING WITH THE INDIAN GST AND E-INVOICING SYSTEM

Avalara

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# Introduction

Businesses need to meet government compliance regulations for sending and receiving electronic invoices. The most important question that businesses face today is either to build a solution or find an automated e-invoicing solution available in the market with all of the critical components needed to deliver the maximum benefits and efficiency for their business. This can be difficult as it requires a lot of effort from people in the company – smart people whose talents really ought to be devoted to helping the company grow, become more profitable and efficient, and avoid the inevitable business risks that go well beyond taxation. Company's best minds can become distracted from the core business. This ebook guides you about what e-invoicing is and what are the most important criteria you need to think about for identifying a robust invoice automation solution.



## E-invoicing in India's tax regime

After successful implementation in more than 100 countries globally including France, Australia, Sweden, South Korea, Singapore, Brazil, Germany, Italy, e-invoicing has finally made its entry in India.

## E-invoicing is here to stay and is going to be mandatory for all businesses in the future.

# What is E-invoicing?

E-invoicing is the digital authentication of a tax invoice generated by businesses within their existing accounting or ERP (Enterprise Resource Planning) systems. Upon the validation of an invoice by the Invoice Registration Portal (IRP), a unique Invoice Reference Number (IRN) is assigned to each invoice.

The same IRN is used when filing GST returns for cross-referencing transaction information. This connects to the e-way bill portal, ensuring swift movement of goods and fewer pit stops at checkpoints.

E-invoice is the process of reporting of transactions within a standardized framework on an immediate basis. Its primary objectives include avoiding tax fraud, maintaining a standard readable format across offices and various software, and finally easing the flow of data to returns & e-way bills.

The invoice is generated by the company on their accounting platform or ERP and not on the government's central tax portal. This invoice can be printed along with other company information for physical usage.

The seller further needs to upload transaction details electronically and validate it from the IRP. Post this validation, the IRN is generated along with a QR code while a digitally signed copy of the invoice is available for both the seller and buyer. For returns and e-way bills, this data is then automatically populated.

# Why is e-invoicing needed?

Apart from standardizing the existing invoice management system, e-invoicing allows data sharing from one software to another.

## There are several functional benefits of e-invoicing:

**1** Boosts turnaround time in availing the input tax credit allowing suppliers to accept or reject transactions in real-time.

**2** Eliminates manual filing and entering of transaction details repeatedly

**3** Enhances payment cycles, reduces invoice processing cost and time through the elimination of handing over the physical invoices.

**4** Reduces manual errors that arise in data entry, invoice reconciliation errors or disputes

| | | | |
|---|---|---|---|
| **5** | Eliminates data duplication simplifying the filing of GST returns and generation of e-way bills | **6** | The unique IRN and QR code generated eliminates the need for transporters to carry valid tax invoices along with the e-way bill for transporting goods. |
| **7** | Provides greater visibility over business transactions and helps authorities monitor tax evasion in real-time. | **8** | Reduces fake invoice generation and input tax credit fraud as each tax invoice needs to be validated in real-time. |

With data sharing becoming easier among various tax enforcement agencies, there will be greater adherence to compliance.

# What does e-invoicing mean for eligible businesses?

The e-invoicing framework requires businesses to update their existing billing systems with the e-invoice schema provided by the government. This is mandatory for eligibility.

With e-invoicing, B2B invoices are authenticated/pre-approved electronically by GSTN based on a recommended format, enabling invoice authentication on a common portal. The government's move to a digital system will enable:

**Cost savings**

**Reduce fraud**

**Eliminate duplicates**

**Late payment fees**



All of this can be assured by updating the existing tech stack which allows e-invoices to be generated with their unique IRN for applicable transactions. While the implementation of e-invoicing was delayed several times, the government made it mandatory under GST on October 1, 2020.

To ease up the process, the authorities have phased out the inclusion of companies in the e-invoicing mandate based on their revenue. So far, the business to business (B2B) transactions of companies having an annual turnover exceeding ₹ 100 crores have been brought under the e-invoicing umbrella. But the subsequent phases will include more companies.

# The phased approach to e-invoicing

As mentioned above, e-invoicing is launched in a phased manner to incorporate businesses based on their turnover. So far, three phases have been declared which are as follows:

**PHASE 1**

From October 01, 2020, e-invoice is applicable to all Business-to-Business (B2B) transactions mandatorily for companies with a turnover of Rs 500 crore or more.

**PHASE 2**

Starting from January 01, 2021, a registered entity with an aggregate turnover over INR 100 crore in a year also falls under the e-invoice mandate for all B2B sales.

**PHASE 3**

The 3rd phase is likely to commence soon. While the threshold is still being decided upon for this phase, the government will gradually include all the transactions (irrespective of turnover requirements) under e-invoicing.

So even smaller companies will have to bring about changes in their tax tech stack to ensure they comply with the new regulations of the government.

# Documents to be reported under e-invoicing

Invoices, Credit Notes, Debit Notes,when issued by notified class of taxpayers (to registered persons (B2B) or for the purpose of Exports) are currently to be reported under e-invoicing. The government might extend it to other types of documents to report at a later stage, if required.

# Transaction types and their treatment under e-invoicing

Different types of transactions are treated differently under e-invoicing. The following transactions are currently covered under e-invoicing based on the company revenue and the phase:

- Supplies to registered persons (B2B)

- Supplies to SEZs (with/without payment)

- Exports (with/without payment)

- Deemed Exports

But there are certain transactions which are currently exempt from e-invoicing. These may or may not be included in the next phases of e-invoicing:

- B2C invoices by notified persons (however, bar code requirements for these transactions are just around the corner)

- Import Bills of Entry

- Companies overseas selling their products/services in India without registration

- Transactions of entities or sectors falling under the following categories:

  - Special Economic Zone Units
  - Free Trade & Warehousing Zones (FTWZ) as they are a special category of Special Economic Zones
  - insurer or a banking company or a financial institution, including a non-banking financial company
  - goods transport agency supplying services in relation to transportation of goods by road in a goods carriage
  - Suppliers of passenger transportation service
  - Suppliers of services by way of admission to exhibition of cinematograph films in multiplex screens

As a thumb rule, entities which are not registered under GST are not mandated to issue e-invoices. Also, any activities/transactions which are neither supply of goods nor a supply of services, as per Schedule III of CGST/SGST Act such as high sea sales and bonded warehouse sales are not to be reported as e-invoices.
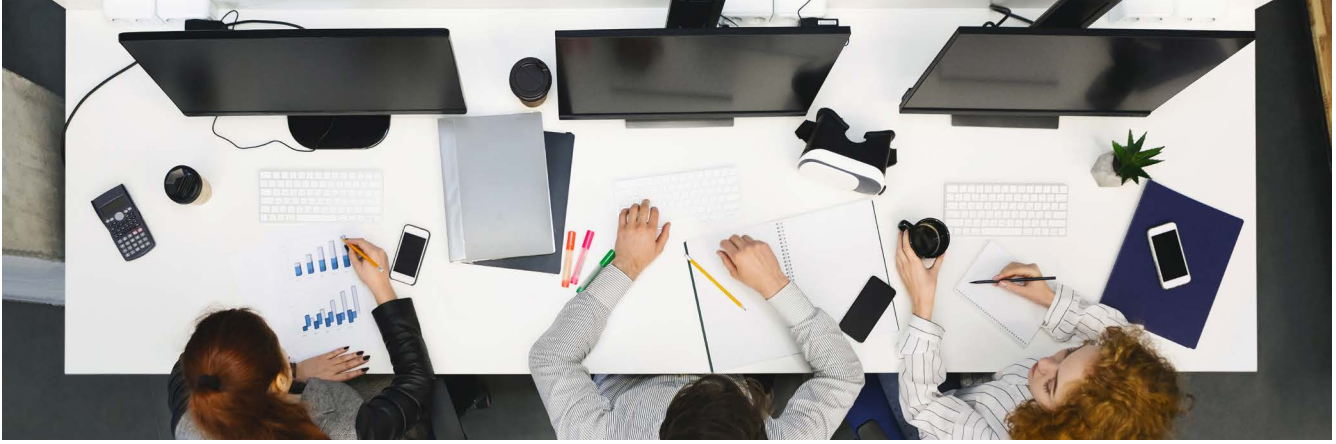
# Preparing your organization to adopt the e-invoicing solution

Preparing for e-invoicing can be a complex process comprising several critical steps that require extensive investments in terms of both time and effort. These include:

- Understanding the business components which will get affected such as processes and workflows, technology (ERP, POS), human resource, and more.

- Upgrading internal systems

- Evaluating different methods of generating e-invoices

- Choosing a comprehensive e-invoicing technology solution

- Integration with business systems

- Testing business scenarios and going live

In the course of this ebook, we'll walk you through critical challenges to be prepared for, as well as help you chart a path for seamless transition.

# What does e-invoicing mean for different functions?

## SALES

E-invoicing cuts through complex processes of delivering a physical invoice to the recipient and the processing cost associated with it. Since the invoices are digital, it reduces queries coming in from customers or suppliers and ensures quick payments.

Also, the need to enter data repeatedly at every step is eliminated, reducing chances of human error and also leading to seamless GST return filing and generation of e-way bills.

## PURCHASE

Manual invoices are labour-intensive requiring sorting, filing, and approval. e-invoices are centrally accessible leading to rapid processing and approval. This will consequently lead to on-time payments fostering improved cash flow.

## ACCOUNTING

The problem of invoice reconciliation is pervasive and pernicious. It is a highly error prone process with

- Customers combining multiple bills into a single payment
- Customers asking for claim deductions
- Differences between invoice and payment amounts

E-invoicing enables customers to send details of the invoices paid along with the payments. This significantly streamlines account reconciliation.

## COMPLIANCE

With the current scale and growth of companies, international trading is fairly common. This means dealing with a wide range of myriad legislations and regulations.

Failing to meet specific requirements, will lead to sanctions and eventual loss of credibility. While regulatory compliance is complicated and  confusing, it is essential to adhere to it.

e-invoicing cuts through the confusion allowing the software to analyze and let the user know if the compliance requirements have been met. This leads to fewer disputes and higher satisfaction.

# Key challenges

Changing to a new system of invoicing leads to obvious transitional challenges, due in part to the lack of clarity over the new regulations. Addressing these challenges effectively requires major system upgrades, which we'll address further below in this ebook. For now, here's a brief look at the challenges you may encounter:

**1**

### CHANGES TO THE ERP SYSTEM

Most ERPs today can be customized to meet specific requirements as per the standard invoice format. Businesses need to integrate their ERP systems with that of IRP/GSP/ASP for seamless data exchange between the IRP and ERP system. The GSTN has released APIs exclusively for this.

**2**

### MULTIPLE RECONCILIATIONS

With the number of compliance requirements organizations have to address, multiple reconciliations are necessary:
- Reconciling books of accounts with e-invoice generated
- Reconciling with auto-populated annexures under new returns
- Reconciling during the audit, etc.

**3**

### SORTING B2B AND B2C INVOICES

E-invoice currently applies only to B2B invoices and not B2C invoices. The former requires both the e-way bill and e-invoice, while the latter, only an e-way bill. As part of their phased approach, the government will also cover other invoice types eventually as mentioned in the previous section.

**4**

### CANCELLATION, AMENDMENT, & STORAGE

Under the revised system, an e-invoice cannot be amended or modified. The e-invoice needs to be canceled on the IRP in its entirety within 24 hours. The data is available only for 24 hours on the IRP. After this, the cancellation needs to be done in the GST portal.

**5**

### NAVIGATING MULTIPLE SYSTEMS

Taxpayers already access multiple systems - GSTN, government tools, e-way bill portal, and their accounting system. Centralizing the system is necessary to facilitate easy storage and retrieval of data.

# How businesses can create an e-invoice

**There are multiple modes a taxpayer can use for reporting invoices:**

**BULK UPLOAD**

**MOBILE APP BASED**

**API BASED**

**GSP BASED**

The system will generate invoices as per usual; however, the reporting will be electronic. Taxpayers will have to follow the e-invoice schema and submit mandatory details accordingly. Their submissions must include the following parameters:

- Tax scheme
- Supplier type
- Document details: Type, number, and date
- Supplier information like legal name, GSTN number, address,
- Location, state code, and PIN code
- Buyer information like legal name, GSTN number, address, location, state code, and PIN code

- Dispatch details (if different from supplier details)
- Shipping details (if different from buyer address)
- Item related details like service/goods, HSN code, total amount, GST rate, Assessable amount, total item value
- Batch number

The invoice needs to be generated electronically, capturing all the aforementioned details. After that it needs to be uploaded to the e-way bill portal. The upload is followed by the below mentioned steps (applicable for the API system). A similar process can be followed up for manual and SFTP upload as well.

## STEP 1

# Generation of Invoice Reference Number (IRN)

On uploading an invoice to the IRP, an IRN is generated and can be used at multiple places. It will reduce physical documentation, especially with large consignments.

*This requires an accounting or billing software capable of creating a JSON file and uploading it to the IRP.*

## STEP 2

# Addition of Digital signatures

Once the IRN is generated, it will be checked for duplicates against the Central Registry. Post that, the IRP will add a digital signature and a QR code in the invoice's JSON data.

The integration of the IRN into the QR code will enable easy verification, both on the central portal and across offline applications, especially when it needs to be used in areas with limited internet connectivity.

## STEP 3

# Auto-population of e-Way Bill and GSTR-1

Data once provided would be used to align and complete all fields and compliances. The linking of e-invoicing and e-way bill eliminates the need to re-submit data multiple times and at multiple intervals.

- The uploaded data is shared with the GST and e-Way Bill system.
- Auto-populating it into GSTR-1 of the supplier and GSTR-2A of respective receivers to determine liability and ITC by GST system

The e-invoice will be generated by the accounting/billing software and the taxpayer's ERP systems and not by the government's tax portal. The IRP will just receive, validate, and digitally sign the invoices uploaded by the seller.
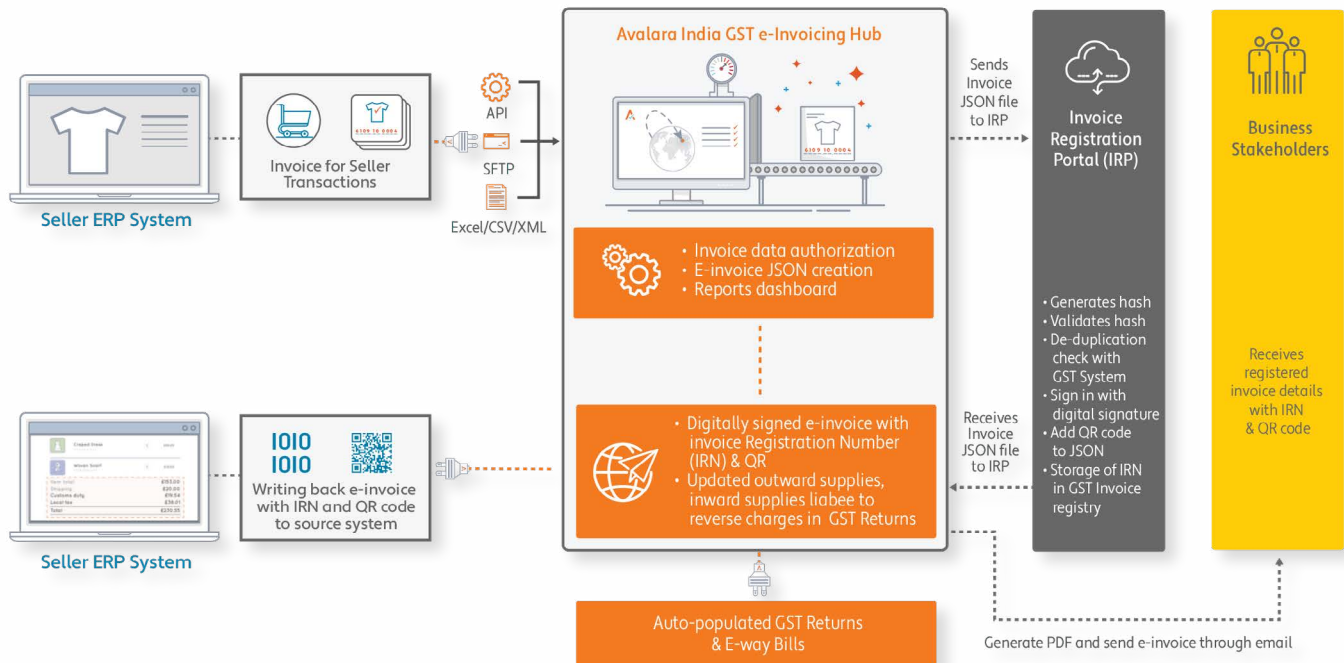
# Consequences of non-compliance

In the event of non-compliance and a failure to upgrade systems to enable e-invoicing, the IRN will not be generated. Non-issuance of e-invoice is an offence under GST and will lead to the following consequences:

- Penalty for non-issuance of invoice - 100% of the tax due or INR 10,000, whichever is higher.

- Penalty for incorrect invoicing is INR 25,000

# Getting started

Preparing for e-invoicing requires a holistic review of existing IT systems. Simultaneously, various business processes have to be modified to meet the new tax requirements.

## 1. Prepping your tech stack

### Shortcomings of current technologies:

✔ Lack of standardization of the invoice format

✔ Manual ERP entries

✔ High probability of transactional errors

✔ GST portal does not support validating and downloading invoices

✔ Difficulty in verifying the credibility of an invoice

✔ Same invoices are uploaded into the GST portal and e-way bill portal

✔ Difficulty in data sharing of invoices

✔ No option to upload purchase transactions

✔ No reconciliation of purchase with Input Tax Credit (ITC)

✔ Prevalence of tax evasion

## 2. Updating your accounting software to accommodate new e-invoice fields

For the e-invoicing system to be fully integrated, the existing ERP software needs to facilitate data exchange with the use of the following APIs:

→ Authentication

→ Generate IRN

→ Cancel IRN

→ Get e-invoice by IRN

→ Get GSTIN details

→ Health Check API

Authentication is mandatory to use these APIs. This is done by entering the client ID and password. Companies need to avoid hard coding SSL certificate with the API interface. Upon successful authentication, a token and a session encryption key (SEK) are obtained with a validity of six hours.

# Changes to be incorporated into the accounting/ERP software to accommodate e-invoicing:

Data validation to ensure the information entered is as per the e-invoice format.

Assigning a unique document number to every invoice.

Linking the invoices generated to the accounts payable and accounts receivable for timely settlement of invoices.

Upon cancellation, the document number used should not be used elsewhere.

Tracking canceled invoices/e-way bills generated based on invoices.

Redirecting the taxpayer to the GST portal to cancel invoices post 24 hours.

Incorporation of payment reminders to simplify filing.

Linking credit/debit notes to original invoices that needed amendment.

Provision for storage of newer invoices for easy reference.

Archival facility into a separate backup medium for older invoices.

## 3. Choosing the right technology option

Based on the current requirements, it is necessary to deploy a comprehensive solution to simplify the generation of e-invoices. The solution needs to be capable of seamlessly uploading invoice data and automating GST compliance tasks.

### Here are critical factors to consider when evaluating technology options:

✓ Seamless transfer of invoice data from multiple source systems like ERP, accounting, billing, e-commerce, and POS systems to a single e-invoicing solution

✓ Provision of complete 2-way API integration, SFTP transfer, Excel or CSV upload

✓ Real-time e-invoice generation based on business needs

✓ Data validation

✓ Quality checking of data

✓ Segregation of B2B and B2C invoices

✓ Smart reconciliation

## 4. Exploring synergies with Avalara's e-invoicing solution

Avalara helps businesses with GST compliance needs, from retrieving invoice data from business systems, to mapping, processing, validating them, and from generating e-invoices, to combining other compliance processes like GST calculations, GST returns and e-way bills — all in a single offering.

Avalara India GST e-Invoicing offers a one-stop-shop solution for businesses across industries to address the new e-invoicing compliance obligations under the evolving and ever-changing GST landscape in India. It helps in the real-time generation of e-invoices, both in bulk and in batches, while seamlessly automating GST returns and e-way bills. This enables businesses to:

→ Simplify the e-invoice management at-scale

→ Eliminate manual compliance processes while generating e-invoices with GST Identification Numbers (GSTINs)

→ Customized invoice printing

→ Seamless integration with an existing software stack

→ Minimal disruptions to current workflows through flexible API integrations

→ Enhanced governance and reduced business risk

→ Utilization of a comprehensive India-specific GST compliance suite to automate

→ GST returns, reconciliations, and e-way bills

→ Transparent, smooth end-to-end experience

→ Built-in validation of invoice data

# About Avalara

Avalara simplifies tax compliance by offering pre-built connectors and custom integrations into leading accounting, ERP, e-commerce, and other business applications. With customized cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, and different indirect tax types, Avalara is here to protect your business's bottom line and maximize ITC claim.
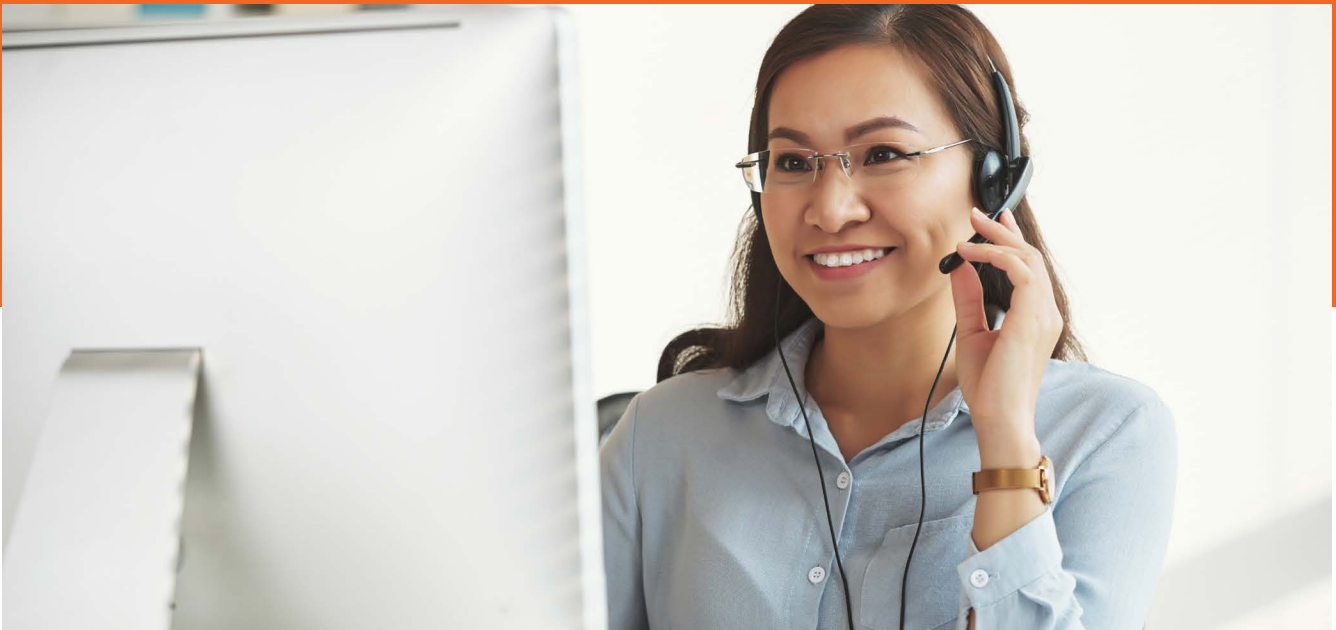
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