



LEDES Oversight Committee
LEDES XML E-Billing 2.1 White Paper

By Jane A. Bennitt
August, 2008

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Introduction

In the Charter of the LEDES Oversight Committee it states,

The LOC is dedicated to using open standards which cater to no one organization or group of organizations to uniformly satisfy the complex needs of the legal industry based on 5 basic principles: keep it simple; make it unambiguous; diverge from existing formats as little as absolutely necessary; only ask for information the law firm is typically able to provide from their financial system; and meet the needs of corporations, law firms and legal industry software vendors to the maximum extent possible consistent with the first four criteria.

E-Billing began as a means to receive invoice information electronically. The LEDES 1998 format and its successor LEDES 1998B provided the most common elements of an invoice – the time and expense line items – and included minimal information necessary to identify the client, law firm and matter being billed. The e-billing file format *was not* designed to detail the financial transaction represented on a paper invoice, only to provide the information contained within the invoice.

There are other things that the original e-billing formats were not designed to do: they did not consider multi-payor bills, the need to charge taxes on legal fees, the submission of invoices in anything other than the client's currency, law firms with multiple tax-id numbers and, although Alternate Fee Agreements were already in vogue, the formats were designed to accommodate only hourly billing.

Let's fast forward a decade to 2008. E-Billing is a global solution intended to meet the legal and statutory requirements in countries where it is used. In many jurisdictions an electronic invoice is, in fact, a 1-for-1 replacement of the paper bill or "tax document" that law firms and clients produce or retain for tax purposes. The format therefore *must* detail the financial transaction represented on a paper invoice. Alternate fee agreements, multiple taxes and tax types on legal fees (like in Canada), multi-currency transactions, and client's desire to see all discounts applied to an invoice all contribute to a format that is no longer simple.

More importantly, the nature of the financial transaction between the client and the law firm has become more complex. As clients push towards 100% compliance with the request to e-bill, the LOC and vendors need to devise ways to itemize these complex financial transactions within the LEDES invoice file.

The invoicing requirements of law firms and their clients therefore require a format that is rich in detail. As complex as the LEDES XML 2.1 format may be, we have made every attempt to keep it as simple as possible.

Background

Factors Leading to XML E-Billing 2.0 Format Review

Within a year from the time LEDES XML 2.0 was released, we were fielding questions on the format and how it should be used. Of more significance, perhaps, e-billing during this time spread significantly outside of the US. Some global firms questioned whether LEDES 98BI and LEDES XML 2.0 satisfied the legal and regulatory requirements placed on them for electronic invoicing and tax compliance, and this debate was used as an excuse for law firms to not comply with their clients' request to e-bill. As a result, the LOC felt the time was right to take another look at the e-billing format.

Format Review Team Formation

In 2007 the LEDES Oversight Committee E-Billing Subcommittee, under the leadership of Bill Mertes¹ of Winston & Strawn, formed a team to review the LEDES XML E-billing 2.0 format and consider possible revisions to further support the global expansion of e-billing. The Format Review Team was led by Jane Bennitt¹ of Baker Robbins & Company and included the following additional team members:

Linda Runham, Slaughter and May¹ (UK)
Keith Brown, CT TyMetrix¹
Ted Best, LexisNexis Examen¹
Jennifer Zimmerman, Hush & Eppenberger
Rupali Kothari, DataCert
Spencer Smith, Linklaters (UK)
David Nelson, Clifford Chance (UK)
Paige Williams, CT TyMetrix
Debbie Weaver, TrialNet
Wanda Moore, McCarthy & Tetrault (Canada)
Gary Markham, Legal Solutions Group (UK)

The Format Development Process

XML E-Billing 2.1 is the result of more than 30 hours of conference calls held by the Format Review Team. This represents an extraordinary commitment of time on the part of team members, many of whom also participated in discussions that led to the development of LEDES XML 2.0. The depth of knowledge, understanding and generosity of this group was astounding.

¹ Participated in the discussions which led to the creation of the LEDES XML E-billing Version 2 format in 2005

In terms of specific contribution, David Nelson from Clifford Chance should be recognized for the topics he brought up for discussion including, most importantly, Withholding Tax.

I also held numerous other conversations with many people at different time and billing systems and e-billing vendors and would like to thank everyone who responded to my calls and emails. In particular, Jim Hammond from RainMaker Software made a significant contribution in the formulation of our math statement. Ken Wilson and Mark English in Canada also provided very timely feedback which led to refinement of the information provided in “tax-on-tax” situations.

It is also important to recognize the guidance and support provided by our Subcommittee Chair, Bill Mertes, in this final work product. Bill’s first-hand experience from his day job with a global firm, his history with the LOC, and his willingness to serve as my touchstone helped me immeasurably through this process.

The Result: XML E-Billing Ver. 2.1

The format is built on XML E-Billing Ver. 2.0, which itself was built on LEDES 2000 and keeps to our Charter’s mandate to diverge as little as possible from existing formats. While we added some 60 fields to the format, we only added one segment to the file, a major achievement considering how many new facets were added to the invoice file format.

General Discussion: Major Items

This section provides general discussion on major points that you should understand about the LEDES XML 2.1 format.

Character Set Used

The LEDES XML 2.0 format mandates the use of the UTF-8 character set. It was suggested that LEDES XML 2.1 should expand the character sets that could be used by law firms and legal vendors submitting invoices to better support global e-billing. In that the character sets accepted is an attribute of the receiving system and not something that can be enforced by the LOC, LEDES XML 2.1 continues to require the UTF-8 character set. We have, however, added the following language,

While an e-billing vendor may support other UTF character sets, submissions using anything other than UTF-8 could be rejected by the receiving system.

Check with the e-billing vendor if you use other than the UTF-8 character set.

Discounts and Credits = Adjustments

Adjustments can be noted on fee or expense line items in the @FEE_ITEM_DISC_CRED and @EXPENSE_ITEM_DISC_CRED segments, or at the matter level in the @MATTER_DISC_CRED segment. In addition, there is a @TAX_MATTER_DISC_CRED segment to provide information on taxes applied to matter-level adjustments. Collectively, these four segments are referred to hereafter as the “Adjustment Segments”.

We learned that there was confusion by exactly what we meant by discounts and credits in LEDES XML 2.0. We therefore ask you to replace the term “discounts and credits” with “adjustments”.

We also came to understand that the terms discount and credit can be confusing to users when trying to determine whether the number is negative or positive, so we added a field to indicate whether the adjustment increases or decreases the matter total, fee item or expense item, depending on the segment being adjusted. Increases are positive adjustments and decreases are negative adjustments.

Lastly, in LEDES XML 2.0 we wanted to add better support for Alternate Fee Agreements (“AFAs”). Instead of adding additional segments to hold AFAs, we decided to place the AFA charges in the Adjustment Segments. Why? Only to shorten the format. If we had added segments specifically to support AFAs, 4 additional segments would have been required (conceptually, @MATTER_AFA, @MATTER_AFA_TAX, @FEE_ITEM_AFA and @EXPENSE_ITEM_AFA) and these segments would have worked *exactly* the same as the Adjustment Segments.

See Appendix A for more discussion of Discounts, Credits and Tax Functionality in XML 2.1

Taxes

Law firms who are not required to charge taxes on legal fees simply do not understand why we have devoted so much time and effort to wrestling with taxes. If you are one of these firms, understand that your situation is the exception (not the rule) and consider yourself lucky.

Here is some background on how tax functionality has developed over time.

Taxes and LEDES 98B

The LEDES 98B format does not have a place holder for taxes on legal fees. It was not considered at the time the LEDES 98B format was created because there were so few states in the US that required tax on legal fees at that time. Once this deficiency was uncovered, receiving systems created specialized UTBMS codes to accommodate taxes on legal fees and treated tax as an expense on the invoice.

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If adjustments were made by the bill reviewer on invoices where tax was required on legal services, the tax amount on the invoice was not recalculated. The prevailing opinion was, "just let the law firm keep the extra 12 cents." The time required to book the excess miscellaneous revenue to the law firm cost far more than the amounts received. (It should be recognized that in many jurisdictions this practice is not allowed by law, and this is the reason why VAT invoices have to be accepted or rejected in full in e-billing.)

It might have been possible for the receiving system to recalculate the tax due on the adjusted total, but only if the taxable line items were identified and information on the tax rate applied was provided in the invoice submission. At the very least, if this information had been provided the receiving system would have been able to suggest back to the law firm what the proper tax amount should be and allow the law firm to verify this before payment on the invoice was made to the law firm.

Taxes and LEDES 2000

While LEDES 2000 allowed for the itemization of taxes on a line item, the format also was problematic. Here's why:

- Think about when you go to the store and buy taxable items. You receive a receipt that itemizes each of your charges and has an indicator of whether or not the item is taxable. A subtotal is provided. The taxable total is calculated and from that the tax is figured. If multiple taxes are charged, you will see the tax itemized for each type of tax. The subtotal and each of the tax charges are totaled to arrive at the total due.

If you calculate the taxes on each item and total them together, you will have a total that is higher than if you multiply the sum of the taxable line items by the tax rate. You will always be off by a matter of pennies or possibly much more if the bill is large, and this margin of error can contribute to the rejection of invoices due to math errors.

- There was only one placeholder for taxes in the format and this fails in any jurisdiction (like Canada) where multiple taxes can be charged on a line item.

For clients who wanted the receiving system to proof the taxes charged on their invoices, this was not possible without an indicator of the type of tax on each taxable line item and tax rate for each tax charged.

LEDES 98BI

The structure of LEDES 98BI is very similar to LEDES 98B except that additional fields have been added to the record. For taxes, additional placeholders have been added to include the `Client_Tax_ID`, `Invoice_Tax_Total`, `Line_Item_Tax_Rate`,

Line_Item_Tax_Total, Line_Item_Tax_Type, Invoice_Reported_Tax_Total and Invoice_Tax_Currency.

- In that taxes are itemized on the line item, the potential for math errors is present if the receiving system totals the Line_Item_Tax_Total and validates it against the Invoice_Tax_Total without allowing for a margin of error tolerance.
- By definition, because the Line_Item_Tax_Rate and Line_Item_Tax_Type are separated in the format, it would not be possible to combine the multiple taxes charged on legal fees such as is the situation in Canada. Support for multiple taxes applied to line items could be achieved by separating the line items from the taxes charged on the line items (i.e., the fee item is line 1 and followed by the tax1 amount for line 1 as line 2, and followed by the tax2 amount for line 1 as line 3, and so on). This presents a programming challenge to creating the LEDES 98BI invoice file at the law firm and also to importing the invoice file by the receiving system.

Taxes and LEDES XML 2.0

The information required on taxes changed dramatically in LEDES XML 2.0. In this format we added a tax lookup segment (@TAX), a segment to summarize all taxes charged on a matter/invoice (@TAX_SUMMARY) by tax type, the ability to note taxes on matter-level adjustments (@TAX_MATTER_DISC_CRED), and also on fee and expense line items and adjustments that apply to these line items (@TAX_ITEM_FEE and @TAX_ITEM_EXPENSE).

Taxes and LEDES XML 2.1

The LEDES XML 2.0 tax functionality is largely the same in LEDES XML 2.1, *however*, in LEDES XML 2.1 we added a great deal of instruction on how to handle specific kinds of taxes.

For more information on tax functionality in LEDES XML 2.1, see the Segment Specific Discussion on Tax later in this document. See also Appendix A for more discussion of Discounts, Credits and Tax Functionality in XML 2.1.

The Invoice Math Statement

The invoice math statement in LEDES XML 2.1 has been updated from that used in LEDES XML 2.0, and appears on the Detail Format Specifications tab beginning on line 241.

One very interesting thing learned from our numerous discussions with the time and billing and e-billing vendors is that literally each vendor has their own method for calculating the math on an invoice.

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We also learned that many of the fields within the LEDES formats may not be hard-coded and stored within the time and billing program data stream and are, therefore, virtual calculations made at the time the LEDES invoice file is created.

Similarly, e-billing systems may not store some of the hard-coded fields in the LEDES invoice file and may, in fact, be recalculating your invoice totals.

We published our math statement so that vendors can model their own math statements from ours.

There was another interesting thing we learned. The LEDES format allows for multiple matters per invoice. When there are multiple matters per invoice, these printed bills display adjustments at the invoice level but, *in fact*, these adjustments actually occur and are stored within the time and billing system at the matter level. Our math statement reflects this fact, with the @INVOICE segment showing only a roll-up of the totals that come from the different matters. This is why the @INVOICE segment doesn't have an associated DISC_CRED segment like the @MATTER segment (@MATTER_DISC_CRED), @FEE segment (@FEE_ITEM_DISC_CRED), or @EXPENSE segments (@EXPENSE_ITEM_DISC_CRED).

Invoice charges and adjustments are either,

- Subject to splits applied (i.e., when the client is responsible for less than 100% of the charges on the invoice) or not
- Taxable or not and could, as in the case of Canada, be subject to more than one tax.

Our math statement takes into consideration any Withholding Tax applied to the invoice and also any funds applied to the invoice from the client.

What follows is an abbreviated explanation of our math statement.

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Items	Pre- or Post-Split?	Taxable or Non-Taxable?	Math Sub-Statements
Invoice line items, including adjustments on line items and at the matter level	Pre-Split Items	Non-Taxable Items	+ The total fee items on the bill
			+ The total expense items on the bill
		Taxable Items for Tax1	+ The total Tax1 fee items on the bill
			+ The total Tax1 expense items on the bill
		... the preceding item, repeated for every other tax applied to fee and expense items	... + fee total for every other tax applied
			... + expense total for every other tax applied
	Post-Split Items	Non-taxable Items	+ The total fee items on the bill
			+ The total expense items on the bill
		Taxable Items for Tax1	+ The total Tax1 fee items on the bill
			+ The total Tax1 expense items on the bill
... the preceding item, repeated for every other tax applied to fee and expense items		... + fee total for every other tax applied	
		... + expense total for every other tax applied	
Withholding Tax			+ The sum of all Withholding Tax amounts for fees and expenses
Funds Applied from Client			+ <u>The sum of all Funds Applied from Client</u>
Invoice Total			The total of the matter/invoice

The math sub-statements are more complex than represented above. See line 241 on the Detail Format Specification tab for more information on how they work.

Note also that:²

1. Fee and expense item adjustments are considered as part of the @FEE or @EXPENSE.total_amount. Therefore all fee and expense item adjustments occur pre- application of the @MATTER_DISC_CRED.disc_cred MISF or MIDB splits.
2. If some expense items during the invoice time period are at a different @MATTER_DISC_CRED.disc_cred MISF or MIDB, then they have to be

² To understand the numbered items detailed here, it would be worthwhile to look at the LEDES XML 2.1 Format Specification Document while reading this numbered discussion. The explanation given assumes you have looked at the Format Specification Document.

billed in a separate invoice. Vendors in particular need to take note of this instruction in case there is a rule that limits the law firm to submitting only one invoice per billing interval (month or quarter), as mandated by the client.

3. In light of item 1 above where I said that all fee and expense item adjustments are pre-split, only @MATTER_DISC_CRED values can be post-split and non-taxable or post-split and taxable.
4. Tax is calculated and then added in the very *last step* of each math sub-statement where tax is applied.
5. Withholding tax is always a negative number.
6. Funds Applied from Client should be a negative number.

Calculations Within the Format and Rounding

One of the consistent complaints by law firms is rejection of invoices due to validation of the calculations on their submissions because of currency conversion and rounding.

Typically exchange rates, which are managed in the receiving by the client or vendor, differ from the rates used by law firms when creating invoices.

- Differences in the number of characters to the right of the decimal point or the rounding employed on the calculations can be the source of error.
- Applying the exchange rates to individual line items and totaling the invoice can lead to a different total as compared to multiplying the invoice total by the exchange rate. (We discussed this phenomenon above in the section about the Taxes and LEDES 2000.) Depending on how the calculation is handled by your program that outputs LEDES files and by the receiving system, a math error rejection could result.

The receiving system may also convert the invoice information upon receipt to a different currency, and this can also lead to math discrepancies.

Here's the very best example for the need for a tolerance. In the UK law firms are required to bill only for the time worked on a matter. Time may be recorded in minutes and then multiplied by the hourly rate divided by 60 in order to arrive at the charge. To e-bill law firms then must convert their minutes worked into the hourly increment required by the client or receiving system. It was suggested that we allow for additional characters to the right of the decimal point for the hourly increment, but this was rejected due to the requirement by most clients that time be submitted in tenth of an hour increments. It was also suggested that we add a

minutes field, but this would dramatically impact the receiving systems and require an almost complete rewrite of the systems to use this information. Tolerance in this regard is absolutely necessary for e-billing to be successful in jurisdictions where this practice occurs.³

We ask each receiving system to implement a degree of correctness when it comes to rounding math errors and currency conversion situations. Invoice math should allow a small margin of error such that being off by 1 or 2 cents should not be a reason for rejection. A \$3.50 discrepancy on a \$200,000 invoice should be attributed to a rounding issue whereas a \$73.00 discrepancy may be a valid a math error.

Invoice Totals

Invoice submitted must be \$0 or more. Why? With e-billing, EFT payments can only be made into an account or the client can write a check to the firm. An invoice for less than \$0 means that your firm owes money to the client. E-billing is not intended to automatically withdraw money from your firm's bank account, only to put money in!

It is possible, however, that your client or the receiving system has a workflow in place to handle negative invoices. Perhaps it holds the negative amount until the amount of payments to be made to your firm equal or exceed it. Consult your client and vendor's documentation for further instruction on what is accepted.

Segment Specific Discussion

This section, separated by LEDES XML 2.1 file segments in the LEDES XML 2.1 file, provides discussion on specific elements within the segment that you should understand. While this section does not list every change in the file, in some cases we have provided an explanation of elements of the segment that predate the LEDES XML 2.1 format that you should understand

@FIRM

Since LEDES XML 2.0, the LEDES formats allow for submission from multiple firms within the same file. This accommodates firms with multiple locations that are tracked separately within the receiving system, or assists e-billing outsourcing vendors who submit invoices for multiple law firms to a receiving system.

³ Thanks to David Nelson for this important (and hilarious!) discussion.

@TAX

This segment was introduced in XML 2.0 and contains a lookup list of the different taxes charged within the invoices submitted for this @FIRM. It identifies the type of tax and the tax rate.

In LEDES XML 2.0 we also used this segment to associate a tax number to each type of tax charged. It would be possible, then, for a law firm with multiple tax reference numbers to submit invoices within the same file.

- This was first recognized as an issue for Canadian law firms who have different tax id numbers depending on the provincial tax charged. TIN-based receiving systems set up multiple instances of the law firm based on each provincial TIN. (The same situation exists for law firms with locations in different countries that provide services to the same client.) With the LEDES XML 2.0 structure, the multiple TINs can associate to one firm, eliminating the need for multiple instances of the law firm within a client system.

As for more recent changes, in LEDES XML 2.1 we split the taxing jurisdiction into both country and locality.

Tax-On-Tax

In LEDES XML 2.0 we introduced the concept of "tax-on-tax". This is a situation where one or more of the taxes in a tax jurisdiction is based on the sum of the corresponding invoice line item totals AND any other tax amount previously applied to those line items totals. To date we have seen "tax-on-tax" only in Canada, where some provinces have specific taxes calculated on the sum of the line items plus the federal tax paid on those line items. The other tax included in the tax-on-tax calculation is identified in the tax_on_tax_id field.

In tax-on-tax situations, it is expected that both of the taxes involved would be charged against the line items. If for any reason this is not the case, since we require the other tax included in the calculation to be identified in the tax_on_tax_id field, it would need to be itemized in the @TAX segment.

Although we are not currently aware of any such situation, it may be the case in a jurisdiction that there is a tax-on-tax-on-tax situation. It is anticipated that the tax_id and tax_on_tax_id combinations would grow as necessary.

By providing information on the tax rate, plus also identifying the other tax included in the calculation and its rate, it would be possible then for the receiving system to recalculate the correct tax due on line items when adjustments are made through the system *if it is appropriate* by law in the jurisdiction.

Withholding Taxes

With the @TAX.increase_decrease field, we are now able to support the submission of Withholding Tax.

Withholding Tax is tax that is paid by the client to the government as opposed to being collected by the firm and paid to the government.

While taxes are itemized against individual line items on the bill, Withholding Taxes are calculated against total of fees and total of expenses charged pre-tax and post-split on the invoice.

Regarding Withholding Tax,⁴

1. Individual line items will not associate with the @TAX.tx_id for withholding taxes in the @TAX_ITEM_FEE or @TAX_ITEM_EXPENSE.tx_id field, nor will any matter-level adjustments in the @TAX_MATTER_DISC_CRED.tx_id field.
2. There can be more than one Withholding Tax on an invoice, but each Withholding Tax would have a different tax rate percentage.
3. The total of the Withholding Tax(es) does not have to be equal to the other taxes on the invoice; they could be less than or greater than the total of the other taxes charged on the invoice.
4. In the @TAX.increase_decrease field, Withholding taxes are always "Decrease" whereas other taxes should always be "Increase".

Tax-Only Invoices

It is possible for firms to submit a tax only invoice. To do this, associated time and expense entries need to be provided, with the taxable items noted in the @TAX_ITEM_FEE and @TAX_ITEM_EXPENSE segments. The invoice would be adjusted to \$0 in one of three ways. Either: (1) each fee and expense items would be adjusted to \$0 in the @FEE_ITEM_DISC_CRED and @EXPENSE_ITEM_DISC segments, (2) the adjustment would be reflected in the @MATTER_DISC_CRED segment or (3) if the adjustment is due to the application of client monies, the adjustment would be noted in the @MATTER.matter_funds_applied field.

In certain jurisdictions, a tax only invoice is a legally required document and cannot be adjusted. We suggest vendors consider programming this limitation into their invoice review workflow.

⁴ To understand the numbered items detailed here, it would be worthwhile to look at the LEDES XML 2.1 Format Specification Document while reading this numbered discussion. The explanation given assumes you have looked at the Format Specification Document.

@CLIENT

As with past LEDES e-billing formats, there can be multiple clients per firm in an invoice submission file.

This segment provides information on the client being billed, and includes a field to identify the client as required by the receiving system.

@INVOICE

In addition to other information contained in this segment, the @INVOICE segment rolls up the charges from the different matters billed within the invoice.

We added a field to identify the “other ISO” used, for situations where the law firm bills in one currency and is required to report certain information in another currency. This is most often seen when the law firm bills in the client’s currency and is required to report certain totals (like tax totals) in the law firm’s native currency.

This segment contains placeholders for the name, address and tax id number associated with the entity paying the invoice tax, required for all VAT invoices, and also the party billed and the entity paying the invoice if either of these differs from the information provided in the @CLIENT segment.

The Tax Point Date is generally the same as the invoice date. In instances where the Tax Point Date is different from the invoice date, the Tax Point Date indicates the financial period in which the tax applies.

We included a field to identify whether the invoice is or is not a Tax Invoice, as required in the EU and possibly in other areas of the world.

- To simplify this as much as possible, a Tax Invoice does not contain fee and expense line items, only the summary information usually found in the @MATTER and @INVOICE segments.
- It would be possible for a law firm to submit an invoice containing all line item detail and designated “This is a Tax Invoice”, and for the receiving system to display a view of the invoice to the Client and Law Firm that satisfied the requirements for the Tax Invoice required by law in many countries. In this situation, the law firm may not need to send a separate (electronic or paper) tax invoice to the client.

We also included a field to identify whether or not the invoice is a Credit Note. A Credit Note is a legal instrument that corrects a Tax Invoice.

If a Credit Note is issued, it is required that the invoice number of the original Tax Invoice being corrected appear in the Credit Note and this is done in the

@INVOICE.inv_reference field. It is expected that this value will be saved by the receiving system and displayed to the bill reviewer.

Because this field is required for Credit Notes, other possibilities exist for its usage. For example, if an invoice is rejected from electronic testing or by an invoice reviewer, the receiving system should have a record of what was indicated as requiring correction. It would be possible to use this field to indicate the invoice number of the rejected invoice such that the receiving system would be able to validate that all of corrections requested have been made and then either forward the invoice to the next reviewer in the review chain or electronically approve the invoice if the approval authority is satisfied.

Fields have been added to indicate the inv_total_tax_other_iso and invoice_total_net_due_other_iso. In certain jurisdictions, if the law firm bills in a currency other than the law firm's native currency, amounts such as the tax total are also required on the invoice in the law firm's native currency.

The Format Review Team discussed including an image of the invoice or any attachments required to the invoice within the XML invoice file, as XML has the ability to include this type of media within XML tags. We ultimately decided that the potential need for law firms to manually edit their XML files and the technical confusion this could cause outweighed the need to include the image within the invoice file. We did, however, add the field inv_image_file_name to identify the name of an electronic file that supplements the invoice submission.

@REGULATORY_STATEMENT

This is the only new segment added in LEDES XML 2.1. It is designed to accommodate additional invoice-level information that could be required in jurisdictions around the world. It requires a citation of the statute or regulation associated with the information provided, and this would be identified by the receiving system.

Any additional item-level information that is required in jurisdictions should be accommodated using the @EXTEND_HEADER.

@MATTER

A field was added for the Purchase Order Number, if this applies to the legal services provided and an indicator of whether the invoice is the client's "own" or a "third-party" invoice.

We added the matter_billing_type Goodwill Work ("GW"), for situations where the firm performs services for free for the client on a matter and provides information on the work performed in a separate \$0 invoice to the client.

The math in this section was refined for many fields.

Regarding the `matter_funds_applied` field, it should be understood that client monies held on account are not necessarily applied to the first invoice. It is possible that this money is applied at any point during the handling of the matter. The LEDES XML 2.1 format does not have a placeholder to indicate client money on account that is not applied to the invoice.

We learned that in jurisdictions where tax is charged on legal services, it is possible that client moneys held on account are applied to fees and expenses only, and that the taxes on these invoices likely will not be paid via the application of client monies. The result is an invoice with charges that are cancelled out by the application of client monies, but where the associated tax is billed to the client.

Lastly, we added the field `associated_line_items` to indicate whether there are associated fee and expense line items for this invoice. Why? In the LEDES XML 2.1 structure, it would be possible for a law firm to submit an invoice that contains items in the `@MATTER_DISC_CRED` segment only and not have any fee or expense line items. Our fear is that some systems may choose to accept the LEDES XML 2.1 file format and strip out only certain fields instead of taking advantage of the full data structure within the file. Backward compatibility could mean a receiving system doesn't recognize all of the features in the format and may reject it, and we suspect that the Adjustment Segments will be the first features dropped.

@TAX_SUMMARY

The math statement for a couple of fields in this section was refined to align with the math statement at the end of the format.

@MATTER_DISC_CRED

As a reminder, if you have difficulty understanding what is meant by the terms "discounts or credits" in this segment, replace those words with the term "adjustment". This segment contains any adjustments made to the invoice that occur at the matter level. This segment also is used to note any alternate fee agreement charges (bonus, contingency fee, flat fees, discounted hourly rate, etc.) that are assessed at the matter level.

Regarding the different types of `disc_cred`,

1. The Matter/Invoice Credit Memo ("MICM") is not the same as the `@INVOICE.credit_note`. In this situation, the client has requested the firm include in miscellaneous credit on their bill to repay of monies due by the firm to the client (i.e., to recover monies paid in error to the firm).

2. The Matter/Invoice Retainer (“MIR”) is used when the firm bills the client for the retainer to be paid on a matter.

We included the field `increase_decrease` to indicate whether the amount specified resulted in an overall increase or decrease in the invoice total. An increase is a charge applied to the overall invoice; a decrease is a reduction applied to the overall invoice.

We also added an indicator to specify whether the adjustment occurs before or after all shared fee or discounted bill percentage discounts are applied to the invoice.

Other than the Matter/Invoice Shared Fee (“MISF”) or Matter/Invoice Discounted Bill (“MIDB”), all other adjustments must be represented in this segment as a flat amount.

@TAX_MATTER_DISC_CRED

This segment is used identify tax(es) associated with every @MATTER_DISC_CRED line item and remains unchanged from LEDES XML 2.0.

@TKSUM

This segment provides summary information on the timekeepers who billed on this matter/invoice and remains unchanged from LEDES XML 2.0.

@FEE

This segment provides information on the fee items in the invoice.

We split the `fee_work_location` in LEDES XML 2.0 into separate country and locality fields, mandating the use of the ISO 3166 country codes for the country. We also clarified the descriptions for a couple of fields in this segment.

@FEE_ITEM_DISC_CRED

As a reminder, if you have difficulty understanding what is meant by the terms “discounts or credits” in this segment, replace those words with the term “adjustment”. This segment contains any adjustments made to the invoice that occur at the fee item level.

As with the @MATTER_DISC_CRED segment, we included the field `increase_decrease` to indicate whether the amount specified resulted in an overall increase or decrease in the fee item.

Only the Fee Item Discount (“FID”) can be represented as a percentage discount. All other fee item adjustments must be represented in this segment as a flat amount.

@TAX_ITEM_FEE

This segment is used identify the tax associated with every @FEE and @FEE_ITEM_DISC_CRED line item and remains unchanged from LEDES XML 2.0.

@EXPENSE

This segment provides information on the expense items in the invoice.

Similar to the @FEE segment, we split the work_location into separate country and locality fields, mandating the use of the ISO 3166 country codes for the country. We also clarified the descriptions for a couple of fields in this segment.

The major change to this segment is that we added a field for the Payee Name based on a request from some members. This field should only be filled in when the law firm makes a payment to a third party outside of the law firm. Payments to the firm or to firm employees should show a null value in the payee_name field.

While this information is required on submissions for some clients, using this field can differentiate an expense (internal to the firm, a “soft” cost) from a disbursement (payment made to a third party, like a sheriff or expert, a “hard” cost). In our discussions, firms complained that clients inappropriately adjust disbursements. It is possible, therefore, that the receiving system could disallow adjustments to expense items where the payee_name is not null, or somehow highlight the fact that the item may not be appropriate to adjust to bill reviewers.

@EXP_ITEM_DISC_CRED

As a reminder, if you have difficulty understanding what is meant by the terms “discounts or credits” in this segment, replace those words with the term “adjustment”. This segment contains any adjustments made to the invoice that occur at the expense item level.

As with the @MATTER_DISC_CRED segment, we included the field increase_decrease to indicate whether the amount specified resulted in an overall increase or decrease in the expense item.

Only the Expense Item Discount (“EID”) can be represented as a percentage discount. All other expense item adjustments must be represented in this segment as a flat amount.

@TAX_ITEM_EXPENSE

This segment is used identify the tax associated with every @EXPENSE and @EXP_ITEM_DISC_CRED line item and remains unchanged from LEDES XML 2.0.

Conclusion

We hope this White Paper is helpful in answering some of your questions on using the XML E-Billing 2.1 format.

Remember that the E-Billing Subcommittee is a standing subcommittee of the LOC. We encourage you to submit comments on this format to the subcommittee for consideration.

Appendix A – Discounts, Credits and Tax Functionality in XML 2.1

The invoice file below is a subset of the sample provided on the Content Hierarchal Segments tab of the format specification document. The indentation on the sample is used to demonstrate the relationship between the file segments, where the child is

1	Content Hierarchical Relationship (Indentation shown for concept only)
2	LEDES XML E-Billing Ver 2.1 - April, 2008
3	@FIRM - Smith & Jones, LLP
4	@CLIENT - 123 Company
5	@INVOICE - 1/1/99
6	@REGULATORY_STATEMENT
7	@REGULATORY_STATEMENT
8	@MATTER - ABC Matter
9	@TAX_SUMMARY
10	@TAX_SUMMARY
11	@MATTER_DISC_CRED
12	@TAX_MATTER_DISC_CRED
13	@TAX_MATTER_DISC_CRED
14	@TKSUM
15	@TKSUM
16	@FEE
17	@TAX_ITEM_FEE
18	@FEE
19	@FEE_ITEM_DISC_CRED
20	@TAX_ITEM_FEE
21	@FEE
22	@TAX_ITEM_FEE
23	@TAX_ITEM_FEE
24	@EXPENSE
25	@EXP_ITEM_DISC_CRED
26	@TAX_ITEM_EXPENSE
27	@EXPENSE
28	@EXP_ITEM_DISC_CRED
29	@TAX_ITEM_EXPENSE
30	@TAX_ITEM_EXPENSE
31	@TAX
32	@TAX
33	@TAX
34	[EOF]

always indented from (or subordinate to) its parent. The adjustments are highlighted in yellow and the taxes are highlighted in orange.

The @Fee item on line 18 has one child adjustment on line 19, and the fee item and its adjustment (lines 18 and 19) are subject to the tax identified on line 20.

The @Expense item on line 24 has one adjustment on line 25, and the expense item and its adjustment (lines 24 and 25) are subject to the tax identified on line 26.

The @Expense item on line 27 has one adjustment on line 28, and the expense item and its adjustment (lines 27 and 28) are subject to the taxes identified on lines 29 and 30.

Fee and Expense items can have multiple adjustments, and any taxes apply to both the fee/expense item and its adjustments. For the matter it is a little different.

The ABC Matter on line 8 has one @MATTER_DISC_CREDIT adjustment on line 11. This adjustment has two different taxes that apply to it that are found on lines 12 and 13. The taxes at the matter level apply only to the adjustments because there aren't any charges, *per se*, on the matter line because the matter line only summarizes the other charges within the matter/invoice.

In all, this invoice ABC Matter uses two different types of taxes and we know this because there are two @TAX_SUMMARY lines in the invoice on lines 9 and 10.

Lastly, there were a total of three different tax types identified in this invoice file, which can be seen on lines 31, 32 and 33.