Make a Smooth Transition to Mandatory e-Invoicing in the Kingdom of Saudi Arabia

eBook

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Introduction

Governments around the world have been hard-pressed for revenues in the wake of the serious economic damage caused by the COVID-19 pandemic. But for economies that have largely depended on oil and gas exports for revenue, the squeeze had begun even earlier. The steady decline in crude oil prices has been the result of several factors including a conscious global shift towards renewable energy sources, a rapid rise in the adoption of electric vehicles, and greater availability of shale oil and natural gas. This trend has forced governments in those jurisdictions to look for alternative and sustainable sources of revenue.

Individual countries are taking various actions to shore up their revenues. For example, in mid-2020, the Kingdom of Saudi Arabia (KSA) increased VAT on most products to 15% from 5% earlier. To prevent revenue leakage, compliance monitoring has also been ramped up. The Kingdom's General Authority of Zakat and Tax (GAZT) reported that during the week ended 8 February 2021, more than 500 violations were discovered as a result of 3388 inspections. (source: KPMG GCC Tax News, Feb 2021). To ensure that revenue is not lost due to deliberate actions or inadvertent mistakes, tight monitoring will undoubtedly continue. Over time, digital technologies will be leveraged to a much larger extent in order to plug loopholes.

An important step in this direction will come into effect on 4 December 2021, which is just a few months away. That date is when e-invoicing will become mandatory for banks and other business establishments operating in KSA that fall under the VAT regime. Starting that date, all businesses in KSA to which e-invoicing requirements apply, must be prepared to issue, receive and store e-invoices. The regulations define the terms, requirements, and conditions related to electronic invoices. In addition to taking a giant leap in the Kingdom's digital journey, e-invoicing is also intended to further reduce the risk of revenue leakage through VAT avoidance. It is thus fair to say that the regulatory authorities will push hard to drive compliance.

Compliance apart, this major regulatory shift has implications for accounting, tax and reporting. In this eBook, we aim to provide guidance on how banks and financial institutions in the KSA can ensure a robust solution as well as have an effective implementation strategy that gets them ready well in time.

Understanding to Whom e-Invoicing Will Apply in the KSA

As things stand, the e-invoicing regulations will apply to two categories of entities/individuals:

- All taxpayers subject to value added tax residing in KSA; and
- Any party that issues a tax invoice on behalf of a taxpayer who is subject to VAT

At this time, taxpayers who are not residents of KSA are excluded from the e-invoicing requirement.

What the KSA's e-Invoicing Regulatory Requirements Entail?

- Under the e-invoicing rules, taxpayers registered under the VAT regime are expected to issue invoices and amendments (through debit or credit notes), electronically for all their purchase/ sale transactions. This includes exports, which may be zero rated under the current VAT regime.

- There is a standard electronic format that must be complied with. This is to ensure "straight-through processing" into the government systems.

- From December 4, 2021, suppliers will no longer be allowed to issue scanned invoices or invoices in PDF format, even if these are digitally sent (e.g., via email). Only e-invoices generated in the regulated format will be considered valid.

- All provisions related to the tax invoice in the value-added tax system, including violations and fines, will be applied to electronic invoices.

VAT and e-Invoicing Are Inter-Related, and the Systems Are Inherently Dependent On Each Other

It is important to understand the close inter-relationship between VAT and e-invoicing. Data elements required for e-invoicing are a sub-set of the data processed in a VAT system. Thus, to comply with the e-invoice mandate, your bank or business entity must ensure that your Accounting/Billing system has enhanced capabilities for VAT compliance or a separate VAT engine in place, in addition to an e- invoicing solution. The ideal solution will of course be an integrated one, so that the same solution can manage VAT, e-invoice generation and exchange, accounting as well as regulatory reporting.

For banks, the ability to provide e-invoices will be an important part of their client service. In fact, it will, in a few months, become an essential part of their service because the bank's customers will expect e-invoices for the latter's regulatory compliance and reporting. Banks will need to adopt e-invoicing because they provide their clients with an array of services. Depending on the identity of the customer and nature of service provided, the applicable VAT rates will vary - as also e-invoicing requirements. It is practical for banks to prepare for a 100% e-invoicing process because the status of different customers can change over time. Also, new customers may need e-invoices.

If your bank already has a VAT engine, our e-invoicing solution can be implemented on a standalone basis. But if you are looking for an integrated VAT and e-invoicing solution, our VAT solution and e-invoicing solution can be integrated and will work smoothly in tandem.

Key Functionalities That VAT and e-Invoicing Solutions Must Offer Entities in The Kingdom

Determine taxability of supplies (taxable, exempted, zero rated and out of scope) and applicable VAT rate

For every outward supply, taxability and the applicable VAT rate must be determined line item-wise and VAT calculated as per rules. Therefore, the VAT solution must allow authorized users to make necessary changes as and when VAT rules and rates are amended to ensure compliance.

VAT invoicing

It is mandated that VAT-registered suppliers must produce invoices documenting revenue and tax information on all taxable sales. For adjustments and corrections, corresponding credit and debit notes must also be produced, detailing the adjustments and corrections done. The VAT solution must facilitate generation and issuance of these documents to the customers within the specified time limit or any time before that on an ad-hoc basis.

Input credit management

The basic framework of a VAT regime works on charging VAT on sale of goods and services (output VAT) and deducting VAT paid on goods or services purchased from registered suppliers (input VAT). Rules for determining input VAT applicability and what portion the taxpayer is eligible to use for deduction may vary from time to time. It is critical for the VAT solution to adhere to and determine the actual eligible input VAT, which gets deducted from the output VAT liability of that taxpayer for any given filing period.

VAT return filing

Every VAT regime has clear specifications on periodicity of filing VAT returns, details to be reported and how to remit the VAT. For large taxpayers like banks, it is critical that the VAT solution provides a facility to auto-generate complete details of the VAT return on time. The cost of non-compliance in this regard can be huge.

Record keeping

The solution must not only enable secure storage of historical invoices and the underlying data, but also facilitate easy retrieval in case of audits.

Other compliance

The tax authority may introduce new compliance regulations from time to time. Some key aspects that banks must consider include ensuring the right solution for compliance, integrating it with the existing VAT solution by ensuring minimum disturbance to core and ERP systems and enabling VAT and e-invoicing systems to absorb most of the changes except for key missing data from the upstream systems.

Security

In a world that is going increasingly digital, the number and type of digital threats too are on the rise. The solution must be secure to prevent unauthorized changes to rules, data or reports - or indeed, any other functionality.

Seamless integration with customer/supplier systems

Once the invoice is generated with the right details and in the appropriate format, it must be electronically transferred to the systems of the key stakeholders - customers and the tax authorities. Ideally, this seamless integration must be delivered through APIs, making it easy to maintain this straight-through processing systems and processes securely. And remember that you will need a solution to manage the e-invoices you will receive from your suppliers and service providers.

SunTec's e-Invoicing Solution

Our e-invoicing solution provides the above-mentioned business functionalities that banks will need. In addition, it also addresses key technical requirements such as the following:

- Complies with the Kingdom's cyber-security requirements and rules relating to control of information/data.
- Prevents tampering with invoices or underlying information and also includes a mechanism for detecting cases of possible tampering.
- API-based quick and easy integration with other systems, which allows customers to connect with third party systems (including government portals). More importantly, information is securely transferred electronically, using JSON or XML formats.

With the technical specifications and other guidelines published by the KSA's tax authority, our solution enables banks to do the following:

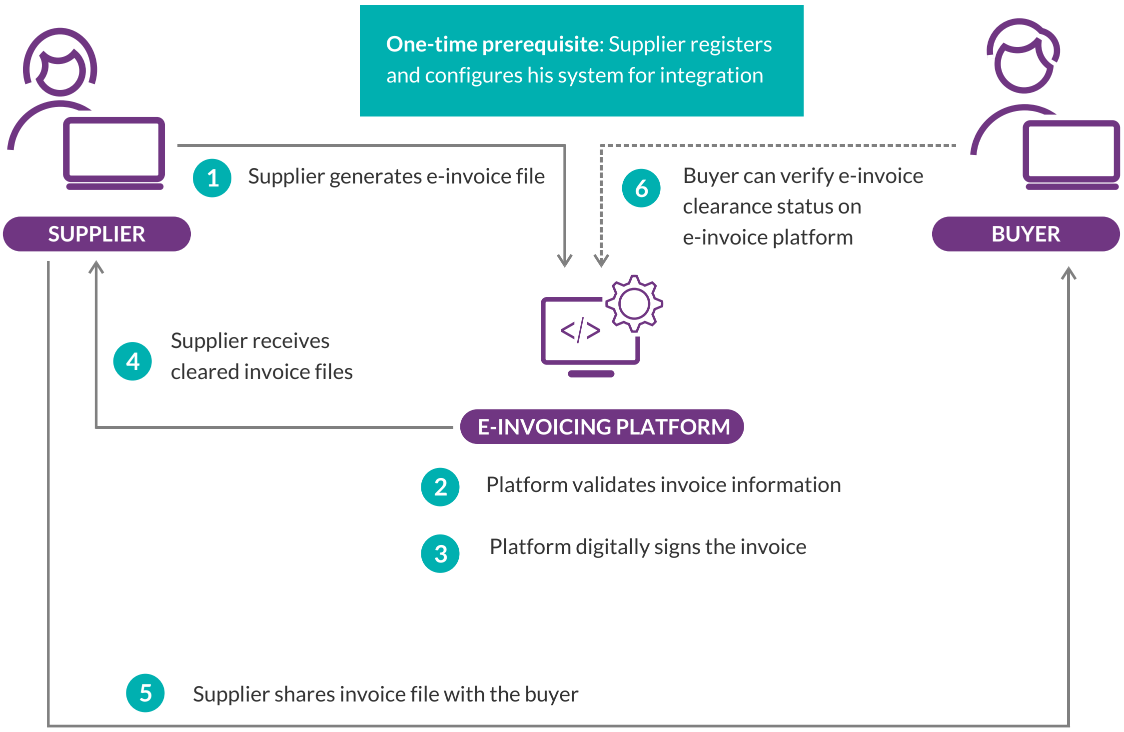
- Upload documents such as invoices, credit notes and debit notes electronically to a central portal for approval by the tax administration and generation of a unique document number.
- Receive the response for approval and other details in real time and log the details for access by other processes, such as customer communication, Sales/Financial reporting, MIS reports etc.
- Allow only approved documents to be exchanged between the trading parties and that too only in the Electronic Data Interchange formats.

It is also important that the solution you select is backed by a partner who has the ability to support customers in KSA not just through implementation and deployment, but also in the early stages to ensure that the solution architecture and design is aligned optimally with the organization's business processes and organization structures.

We have the capability to cater to both the e-invoicing work-flows produced by the GAZT.

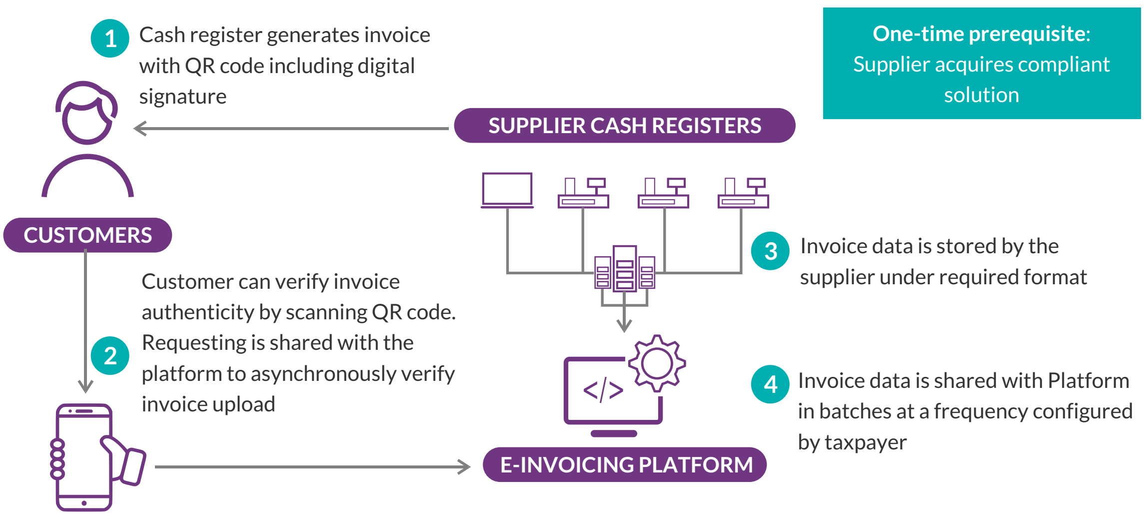
Standard e-invoices:

This diagram illustrates at a high level the invoice generation process where standard e-invoices are stamped by the GAZT's centralized e-invoicing platform.



Simplified e-invoices:

This diagram illustrates at a at high level the invoice generation process where standard e-invoices are stamped by the taxpayer's EGS.

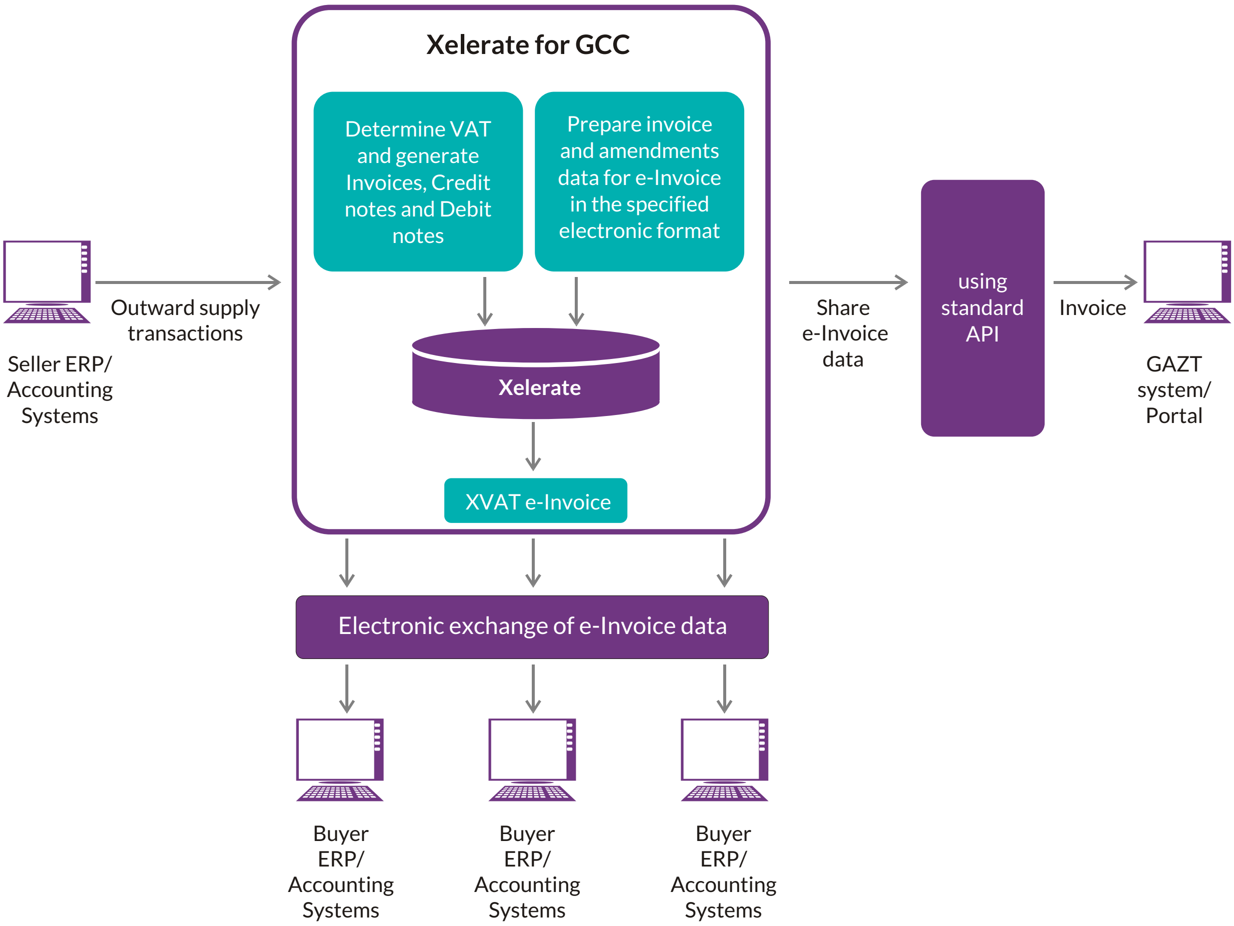


Solution Architecture

The electronic invoicing system can be viewed as a solution that seamlessly needs to handle four discrete, but inter-related steps:

- Using the relevant billing details and appropriate rules for VAT rates, generate the e-invoice, e-debit note or e-credit note in the standard, pre-defined format.
- Electronically transmit these documents (e-invoices, e-debit notes or e-credit notes) to the GAZT system/ portal using API.
- Receive the GAZT approval in electronic format and store the key details for use by other systems.
- Securely send approved e-invoices, e-debit notes and e-credit notes to the relevant buyers using specified Electronic Data Interchange protocols.

The representative, high-level architecture diagram shown below reflects the above.



The SunTec Edge

If you have already adopted our GCC VAT solution, you know how much it has eased the lives of your staff in the Purchase and Finance functions. By adopting our e-invoicing solution, you as a registered taxpayer can realize the following benefits in addition to compliance with all regulations and technical specifications:

Benefits for financial institutions:

- **Achieve 100% digital invoicing** and stay compliant
- Ensure **accurate data** on all your inbound and outbound invoices
- **Eliminate error-prone manual reconciliation** of invoices with automation
- **Reduce time and cost overheads** associated with printing, scanning and sending hard copies to customers
- **Strengthen reputation** by not allowing fake invoices
- Ensure **efficient invoicing process** and prepare for any changes in the future

Benefits for tax authority (GAZT):

- With taxpayers required to share the e-invoice details with a central system/portal of GAZT, ensure **accurate reporting and enhanced tax revenue**
- The current manual reporting of returns could be auto-populated to a large extent, **reducing further errors** and corrections thereafter

Source

[i] *https://assets.kpmg/content/dam/kpmg/bh/pdf/2021/02/bahrain-gcc-tax-news-09022021.pdf*

About SunTec

SunTec is the world's No. 1 pricing and billing company that creates value for enterprises through its Cloud-based products. More than 130 clients in 45+ countries rely on SunTec to provide hyper-personalized products, offers, pricing, loyalty programs, and billing for over 400 million end-customers. SunTec products are based on our cloud-native and cloud-agnostic, API first, micro-services-based proprietary platform, Xelerate and are delivered on-premise, on private cloud and as SaaS. SunTec has global operations including the USA, UK, Germany, UAE, Singapore, Canada, Australia and India. For more information, please visit us at www.suntecgroup.com or email us at marketing@suntecgroup.com