Simplifying e-Invoicing ZATCA Integration for Banks in the Kingdom of Saudi Arabia

Nations across the world are making a concerted push to transform into a fully digital economy. The Kingdom of Saudi Arabia (KSA) is no exception to this and has implemented several initiatives to digitalize the economy. The country merged the General Authority of Zakat and Tax (GAZT) with Zakat, Tax and Customs Authority (ZATCA) to introduce e-invoicing for all companies that come under the VAT regime. In September 2020, the KSA introduced a draft amendment that comprehensively covered e-invoicing rules.

And in December 2022, ZATCA announced the second phase of e-invoicing – businesses with turnovers greater than SAR 500 million would need to complete integration of their ERP and POS with the ZATCA Fatoorah portal between July 1, 2023, and December 31, 2023. Integration is mandatory and the process is not without some challenges. But with the right technology platform and an experienced partner most organizations must be able to complete the integration seamlessly within the specified timeframe.

The e-Invoicing Journey So Far

Physical invoicing was the norm in the KSA for decades. But as the country expanded its VAT regime to increase revenues, it also initiated a transition to e-invoicing. The objective was to detect and reduce instances of VAT evasion and under-reporting which cause revenue leakage. By moving to a paperless e-invoicing system, the KSA intends to increase efficiency and security and ensure greater transparency. It can standardize invoicing formats on the Fatoorah platform and reduce frauds. By consolidating and integrating all e-invoicing on the Fatoorah portal, the KSA will simplify the auditing process by allowing the tax department to track transactions in real time on a common database.

In the first phase of implementations of the new e-invoicing rules, VAT registered taxpayers had to replace physical invoices with digital ones for all transactions subject to standard VAT rates, export of goods and services and intra-GCC supplies in accordance with the Unified VAT Agreement, VAT Law and the VAT Implementing Regulation, and nominal supplies by the taxable person in accordance with the Unified VAT Agreement, VAT Law, and VAT Implementing Regulation. All e-invoices had to follow the standard format to ensure direct processing into the government systems. And all provisions related to tax invoices in the VAT system including violation and fines had to be applied to e-invoices.
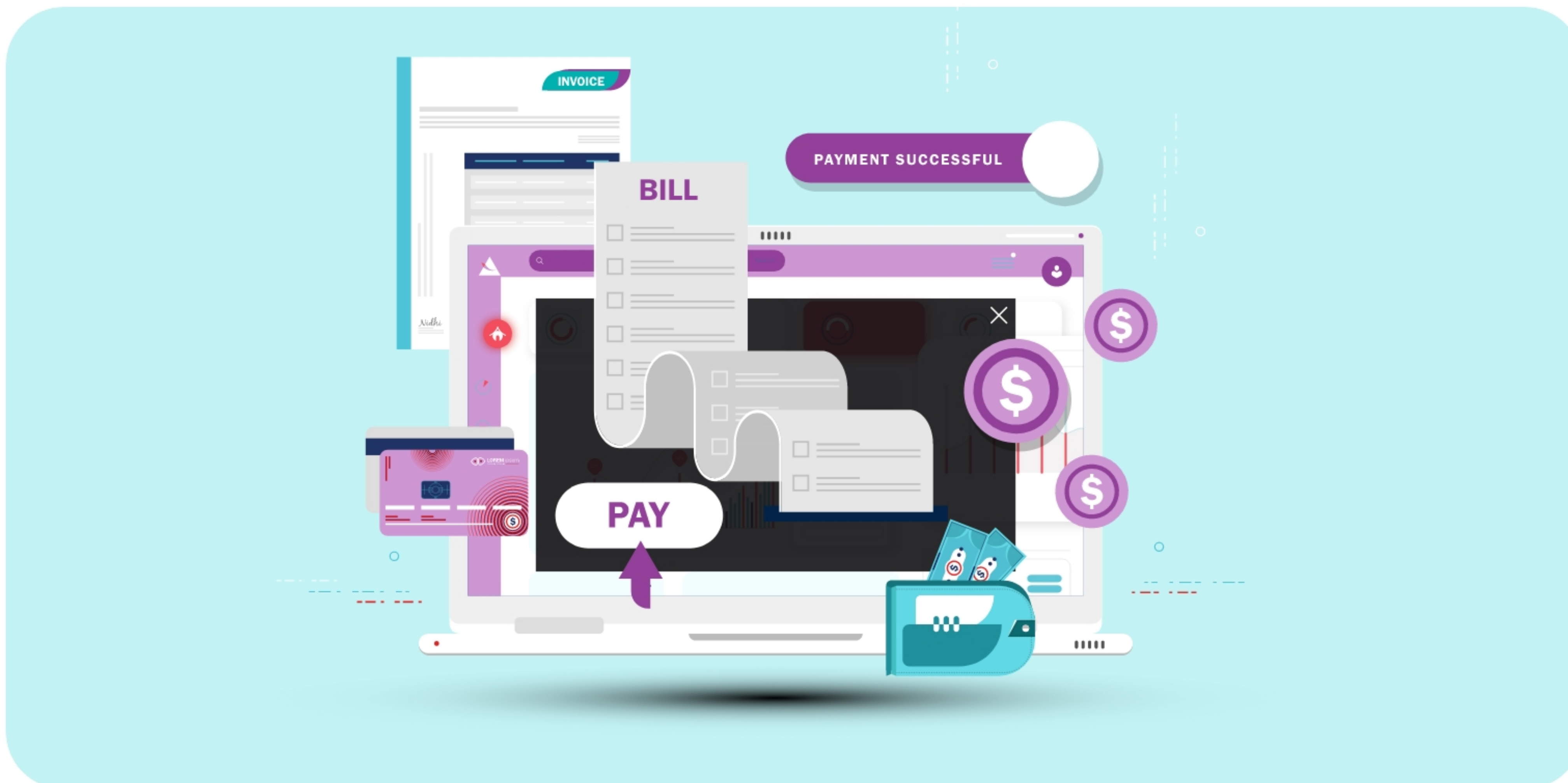
The Integration Phase

Phase II of the ZATCA e-invoicing is also referred to as the integration phase. In this taxpayer invoicing systems must be integrated with ZATCA systems via standard APIs. Organizations will also have to issue e-invoices in PDF A/3 formats and include additional elements such as UUID, hash, cryptographic stamp etc. Every taxable person residing in the KSA will have to generate e-invoices under Phase II; this includes third party organizations that generate tax invoices on behalf of residents. And unlike the first phase, taxpayers now must submit invoices and receive responses/ acknowledgement from ZATCA in real time.

Robust Technology Platforms to Address Phase II Challenges

This phase presents a new set of challenges for taxpayers in the KSA. The taxpayer's ERP and accounting system will have to undergo some changes and adjustments to integrate with the ZATCA platform. This can prove to be expensive and time-consuming. The systems must be updated with all the changes for integration with the ZATCA platform within the specified timeframe. Further, in case of mismatches in ERP data, e-invoices, and VAT returns, taxpayers are required to modify or cancel invoices. Then there is the issue of volume. Companies generate massive number of invoices daily and they must generate and report each one to ZATCA within 24 hours. Many banks work with multiple systems and want to be able to implement one integrated connection to ZATCA that covers all.

An integrated solution that is equipped to handle VAT, e-invoicing and ZATCA can help in ensuring seamless compliance with the ZATCA Phase II requirements. In addition to improving efficiency, such a system will also ensure better security of processes and systems. A robust solution must have fully automated workflows for generating and issuing e-invoices. It must be able to adapt to evolving e-invoice formats quickly and ensure secure storage and easy retrieval of historical invoices and data. It must seamlessly integrate with customer and supplier systems, ensure maximum security and timely reporting as per the rules set down by the government.

ZATCA e-invoicing integration is a mandatory requirement in the KSA and enterprises as well as banks must ensure seamless compliance with this new regime. The process of change can be daunting as processes are complex and time bound. Undoing decades of established practice is not easy either. But the changes required by the ZATCA e-invoicing regime are important for long term economic growth, transparent and honest invoicing practices, input tax recovery and accurate reporting. A robust and agile technology platform can make the transition easier and ensure long term compliance with evolving e-invoicing requirements. To know more about how SunTec can help with this integration, download this eBook.