

SunTec®

# Navigating VAT Compliance in the GCC: A Comprehensive Guide for Banks

eBook



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# 1

# Introduction

The worldwide shift to greener energy sources and the higher volatility in the prices of petroleum and natural gas has, for the past decade, put revenues of the members of the Gulf Co-operation Council (GCC) under growing pressure. To create a sustainable alternative revenue stream, the six GCC countries agreed in 2016 to implement a VAT regime with a common rate of 5%. Over the past five years the Kingdom of Saudi Arabia, UAE, Bahrain, and Oman have already moved to a Value Added Tax (VAT) regime. Qatar and Kuwait are expected to do so within the next year.












VAT provides the opportunity to spontaneously generate financial resources from a wider range of economic activity in the region. For instance, Saudi Arabia tripled its VAT rate to 15% in mid-2020 to accelerate resource generation to meet additional costs during the pandemic. Each member country has its own VAT regime, characterized by variations in VAT applicability, rates, reporting norms etc. Financial institutions are the bedrock of economic activity within member nations and globally as well. Additional complexity stems from the fact that different corporate and retail services/products will attract different VAT treatment. For example, some services may be exempt (out of scope or currently attract 0% VAT).

Banks must accurately attribute costs and manage input tax credit claims. VAT on reverse charges, and VAT recovery methods for general costs that may not be directly allocated are additional use cases. Over time VAT rules could change across individual member countries, customer types, product/service offerings; this makes the task even harder, especially for banks that operate in multiple markets across the GCC and elsewhere. Many banks rely on legacy systems, so data for VAT compliance may reside in disparate systems. Collectively, all this adds to the challenges that banks face in their journey to comply with the VAT regime in the jurisdictions where they operate.

Banks therefore need a comprehensive technology solution that enables them to comply with VAT and other indirect taxation requirements. The solution must be scalable; it must be flexible to ensure that changes to rules can be easily made (because rules and rates are likely to evolve over time). It must be secure, to ensure that data is protected from unauthorized access. It must be user-friendly, so that the bank staff can do their work easily. In an environment that is adapting to hybrid working, the solution must be able to support operations and customer needs through both physical and digital channels. Not having a robust solution amplifies the risk of financial penalties, reputational damage, and other consequences.



The table below compares the build vs buy options using several key criteria.

 Criteria	 Build	 Buy
 <b>Cost visibility</b>	<p>Typically, there is a higher risk of projects overshooting budgets.</p>	<p>The solution is contracted at a certain price; it is the vendor's responsibility to deliver the solution at this price, thereby reducing the risk of budgetary overruns.</p>
 <b>Feature and functionality</b>	<p>That the module needs to be built from scratch requires involvement of business, IT, and external tax consultants; this adds to cost (external experts will typically work in T&amp;M mode). There is also a higher risk that key features and functionality may be missing.</p>	<p>Mature off-the-shelf products offer the broad gamut of VAT- specific features and functionalities.</p>
 <b>Implementation time lines</b>	<p>The internal IT team, which is already working on multiple projects may not be able to prioritize the VAT module. Given the complexity of the VAT requirements from FTA, the lead time may be as long as 9-12 months. This prolongs the duration of increased operational risk for the bank or financial institution.</p>	<p>A ready solution will go live within 3-6 months (depending on the bank's readiness). The timeline will be agreed upon even before work starts. External vendors will draw on their expertise and experience in managing complex projects to minimize any risks of delay.</p>
 <b>Operations</b>	<p>High dependence on IT for day-to-day operations.</p>	<p>Automated workflows as per solution configuration reduce the need for manual intervention; even where necessary, changes can be made quickly because they are parameterized.</p>
 <b>Level of "future readiness"</b>	<p>VAT rules can change at short notice and may vary across individual GCC countries. Unless designed with the necessary level of flexibility, making changes can be time-consuming. It may also require the bank to maintain a dedicated team that is not fully utilized.</p>	<p>Rules-based solutions can be modified at short notice. Also, such support can be included as part of the solution contract, which reduces the risk of the bank or financial institution incurring unforeseen costs.</p>
 <b>Quality</b>	<p>The solution needs to be rigorously tested (unit testing and integration testing) - a process that inherently needs time and expertise to build a comprehensive set of use cases. This adds cost and time, besides injecting a higher level of risk even after the solution goes live.</p>	<p>The product is already extensively tested; integration with satellite systems will be tested during implementation, thus giving the bank greater peace of mind in terms of robustness of the solution and testing costs.</p>
 <b>Scalability &amp; performance</b>	<p>Dependence on internal IT to manage deployment can lead to higher cost due to the need for additional infrastructure (licensed tools, hardware etc.) that may not be reused often.</p>	<p>Leading products are built using the latest technical stack and best of breed components; implementation and testing uses advanced licensed tools. These costs are amortized over multiple clients, reducing the cost burden for individual banks.</p>
 <b>Compliance</b>	<p>The bank needs to take ownership for full compliance with the relevant VAT regime.</p>	<p>The vendor takes ownership for ensuring compliance with regulations from FTA and is contractually accountable.</p>

## 2a Decoding the Buy or Build Dilemma

As with the deployment of any other technology solution, decision-makers at banks must choose wisely when it comes to their VAT solution: is it better to build it in-house or does it make more sense to implement a third-party product? There are pros and cons to both options, but in an increasingly uncertain world, we believe that banks would be better off investing in a third-party product for many reasons.

The bank does not need to worry about creating the necessary specifications, finding, and deploying the right technical and project management expertise, and ensuring that what is built is adequately tested and validated for functionality as also scalability, security, and compatibility with other systems. There are also numerous challenges associated with maintaining systems in-house such as prioritizing projects, allocating resources etc.

Best-in-class VAT products are rules-based, making it easier for banks to quickly modify VAT rates and other applicable rules. Finally, because third-party products are deployed at multiple banks, there is constant learning of best practices that help improve design, implementation, data migration and maintenance. A good external vendor will take life-cycle responsibility from initial implementation to necessary upgrades and maintenance.














# 2b Banks Must Choose Between a Centralized and a Decentralized Approach to VAT

An equally important decision that you as a leader of a bank must make has to do with taking a centralized or decentralized approach to calculating VAT (input/output tax), generating invoices, integrating them with email, reconciliation, regulatory compliance, etc. A centralized approach relies on a unified VAT solution that can handle all aspects of VAT. Typically, this also means working with only one vendor. A decentralized approach, on the other hand, depends on disparate systems to support different functionality. Although not always the case, this approach may involve working with multiple vendors. Managing these multiple partners automatically adds to project management complexities and effort. Of course, the decision must also consider the bank's existing technology landscape.

From our experience, we believe that a centralized approach to a VAT solution is more efficient and cost-effective; it also enhances the bank's ability to respond to changes in the operating environment with greater agility.



The table below compares the benefits of the two approaches to implementing a VAT solution.

 <b>Criteria</b>	 <b>Decentralized Approach</b>	 <b>Centralized Approach</b>
 <b>Effort duplication</b>	<p>A higher level of duplication of effort may be needed because similar rules need to be built in all core systems.</p>	<p>One set of rules that reside in the central VAT engine handles all transactions using data input received from multiple source systems. The solution takes care of data accuracy and validation.</p>
 <b>Dependence on external vendors/system integrators (SIs)</b>	<p>Dependence on multiple vendors or SIs to make changes to each core system.</p>	<p>A single vendor solution covers all aspects of VAT regulations – input tax, output tax, tax invoicing, reconciliations, and regulatory reporting/compliance. There is no need to depend on multiple vendors/SIs.</p>
 <b>Performance impact</b>	<p>The performance of exiting core systems may be degraded/ impacted because of the possible need for workarounds to achieve integration with various satellite systems that provide different input data.</p>	<p>A centralized system is designed and built to collect input from disparate sources, validate the data, and provide all relevant features and functionality including audit trail. Such a centralized solution is also architected to scale easily and are thus capable of handling large transaction volumes.</p>
 <b>Cost of change</b>	<p>Multiple systems will need to be changed as and when VAT regulations change. Such changes can happen at different times in different markets, adding to the challenge. Making appropriate modifications in time may add to the maintenance cost of the VAT related systems.</p>	<p>Best-in-class VAT solutions offer comprehensive functionality. They are highly parameterized and configurable, which makes changes quick and easy without depending on IT teams. Leading vendors offer change management as an integral part of their overall solution contract, thereby reducing TCO for financial institutions.</p>
 <b>Adherence to FTA deadlines on amendments</b>	<p>Higher risk of missing deadlines due to the inherent dependencies on multiple vendors.</p>	<p>Low risk of missing deadlines because the vendor is accountable to ensure timely delivery of changes to rules etc.</p>
 <b>Product maintainability, operations, and future readiness</b>	<p>Dependencies on multiple vendors inherently increases risk.</p>	<p>Significantly lower risk because the vendor contractually takes ownership.</p>
 <b>Management bandwidth/time</b>	<p>Every amendment will potentially require significant investment of time/effort by key stakeholders; this can delay development, testing as well as making changes.</p>	<p>A centralized approach reduces the time/effort. Key stakeholders will be called upon periodically to review the solution for improvements and ensure governance over changes. In the event of personnel change, getting up to speed is easier with this approach.</p>
 <b>Risk of non-compliance</b>	<p>For any/all the reasons listed earlier, this approach inherently has a higher risk of non-compliance. This in turn increases the possibility of penalties on the bank in addition to the negative impact on the brand.</p>	<p>The risk of non-compliance and its adverse consequences are lowered; also, there is only one neck to choke, which reduces the risk of blame games.</p>



# 3

## Essentials of a Robust VAT System for Banks

Given that the GCC economy is largely trade driven, banks require a comprehensive VAT solution that provides end-to-end VAT compliance and takes care of VAT rules regarding imports/ exports and free trade zones. The solution must be able to handle all aspects of VAT, including Output Tax, Input Tax, Tax Invoicing, Reconciliations, and Regulatory Reporting.

Listed below are the major functionalities that you must look for when selecting a VAT solution for your financial institution:

### Output tax management

- Determination of tax parameters
- Determination of tax applicability
- Tax computation (including segregation of charges/fees that include VAT)
- Foreign currency transaction processing
- Invoice corrections - credit and debit notes
- Tax accounting
- Bad debt processing

### Input tax management

- Purchase register maintenance
- Reverse charge tax computation
- Input tax recovery computation
- Capital asset processing & register maintenance

### Tax invoicing

- Tax invoice/credit note/debit note generation
- Invoice verification and approval
- Reprocessing of erroneous invoices/notes
- Auto emailing of tax documents to customers
- Regeneration/reprinting of invoices/notes
- e-Invoicing

### Reconciliations & regulatory reporting

- GL balance reconciliation
- Tax returns generation
- Tax audit reports generation

In addition to the business/regulatory functionality, your VAT solution must also allow easy maintenance. This is important because your bank may operate in multiple countries; your customers too may be domiciled in different jurisdictions. VAT applicability, currency of invoicing, refund processes, and reporting requirements may all vary. It is thus important that your VAT solution can easily handle all such situations. In addition, it must offer a high level of in-built security and audit trail capability.

Therefore, when choosing your VAT solution, you must check that it provides additional functionalities such as the following:

### Standard library maintenance

- Country codes and names
- Currency codes, names & precision
- Emirates/regions
- Tax codes
- Transaction types
- Enumerated lists for e-invoicing

### Business data master maintenance

- Customer master & account master
- Tax registration master
- Bank and branch master
- Source system master
- Service/charge/event code master
- GL account numbers (VAT and expense)
- Currency exchange rates

### MIS reports & other functionality

- MIS reports
- Duplicate check
- Transaction correction and cancellation
- GUI to trigger process execution
- Process execution status alerts
- Parameterized functional behavior
- Post processing transaction updates

### Technical & security functions

- Multi-entity management
- Access control management
- Maker-checker facility
- Audit logging and report

A cutting-edge VAT solution must offer all the above features and functionality. Ensuring that you select the right VAT solution in the first place will prevent much operational and compliance heartburn later.



# 4

## Key Aspects to Consider While Implementing a VAT Solution

Irrespective of what choices your bank makes (build vs buy or centralized vs decentralized), implementing a VAT solution successfully depends on ensuring that certain factors are suitably addressed. While some of these arise because of a bank's existing technology stack and software landscape, others have more to do with ensuring that the VAT solution uses the right input data and the process is aligned to both the customer's needs and the bank's own operational procedures, governance mechanisms, and risk management protocols.

Drawing on our experience, we have identified five capabilities that a good VAT solution must consider and sustain hassle-free VAT processing, management, and compliance. These are briefly explained below.



### Ensuring accuracy and quality of data received from satellite systems

Generally, a VAT solution relies on input data generated by multiple satellite systems. It is important to differentiate the responsibilities of the satellite systems and the VAT solution. Transaction data that comes from various satellite systems (CRM, charging system, ERP, core systems, etc.) must be accurate and of quality. For example, customer master data and transaction data may well reside in different satellite systems. But unless the right data is used for every single transaction, the VAT amount computed, accounted for, or reported on the invoice may be erroneous. The satellite systems must therefore ensure correctness and completeness of input data. For the VAT system to use these data smoothly and efficiently, every element of input data needs to be validated. In turn, this requires the VAT engine to have system-wise controls in place to ensure that data from each individual system is validated before it is used for VAT calculations.



### Providing a flexible model for computing VAT and completing the accounting entries

A good VAT engine must be able to support flexible VAT computing models before it generates the tax

invoice and sends via email to the customer as a PDF file (or another specified format). Some of the key charging models are highlighted below.

- a. The first charging model for computing VAT is a straightforward method. In this model the essential transaction details come from multiple satellite systems and VAT determination is done on the VAT system. Here two debits occur for the customer – one where only the transaction amount is debited and one with the VAT amount. This charging system could lead to challenges like insufficient balance. It may also lead to customer dissatisfaction.
- b. A second model is where the satellite system itself computes VAT by inflating the price. This model entails taking the transaction charge plus the presumptive VAT charge. In this case, the VAT engine must have the capability for reverse computation wherein it segregates the actual VAT charges.
- c. In model three, the satellite system itself sends the transaction charge along with applying VAT rules and computing the VAT amount. The VAT system is then required to re-validate the VAT

computation done by the satellite system by applying all the relevant rules before it generates the final tax invoice.

- d. Finally, in the fourth charging model the satellite system itself has the capability to send the transaction charges as well as apply all the VAT rules and computation and send it as a 'pass through' to the VAT system for invoicing. In this model, the VAT system only passes through the data as is without validation or computation to generate the invoice.



### Data verification mechanism

The life cycle of a VAT transaction extends over a period. A robust VAT solution must provide mechanisms to enable data verification and rectification at different stages. These include transaction verification screens, post processing update options, invoice confirmation, MIS reports etc.



### Built-in reconciliation facility

It is imperative that every transaction in the books of account matches what is reported. Although regulatory reporting occurs on a monthly/quarterly basis, waiting to reconcile transactions is a huge operational risk. A VAT engine acts as a central point for determining VAT treatment and tax reporting. A good VAT engine must therefore have the flexibility to do reconciliation at the general ledger level as well as have a drill-down facility to go down to individual transaction level.



### Enabling accounting corrections

Sometimes, errors can creep into VAT processing due to reasons such as application of incorrect VAT rate, timing differences, incomplete documentation, pricing changes, selection of incorrect code at the time of billing, etc. A good VAT solution must allow correction of such errors (and the downstream bookkeeping errors), and refunds/shortfalls easily. It must automatically generate corrected invoices and send them to the customer.

## 5

# Benefits of a Ready-to-deploy, Centralized VAT Solution

In addition to being cost-effective and quick to implement and roll out, a robust VAT solution must deliver multi-faceted benefits to your bank. These benefits must include the following:

## Operational:

- A single source of truth for comprehensive VAT compliance and audit
- Functionalities to support a broader canvas of indirect taxation
- Parameterized solution that makes for faster implementation and changes to rules, rates etc.
- Shorter timelines to go-live enables more time to prepare for compliance deadlines

## Financial:

- Lower TCO keeping in mind that the solution is ready-to-deploy and has been tested rigorously and the likelihood of frequent changes to VAT regulations
- Accurate and speedier recoverability of tax dues consequent to a centralized view of the bank's input and output positions
- Timely validation and error detection/correction reduces risks of penalties and financial loss
- Minimal changes to existing product processors

## Technical:

- High performance
- Scalability to accommodate rapid increases in VAT transaction volumes
- Industry standard integration capabilities



**SunTec's Xelerate solution integrates a number of systems effectively, producing detailed reports consistently and generating and issuing tax invoices timeously.**

*Jassim Al-Aradi  
Financial Controller  
Financial Planning and Control*



- Analytical capabilities to drive process improvements over time

## Strategic:

- Single solution to handle VAT regimes across GCC member countries
- Offers comprehensive view at group level (spanning multiple legal entities) to understand tax liabilities, along with drill-down capabilities
- No limitations on what type of customer/account it can be used for
- More accurate and timely tax invoicing helps build customer trust and strengthens relationship



# 6 Success Story

## UAE's largest private bank relies on SunTec VAT Solution

The oldest bank in the UAE has won many awards for their financial solutions and services. They have a significant presence outside the UAE as well, with 26 overseas branches and offices across Europe, USA, Asia, and Africa.

Like many other banks, this bank too had multiple applications that supported different lines of business and generated various elements of the data that the VAT system would need as inputs. They had to comply with a fixed deadline; modifying the code suitably in 25+ disparate applications and integrating these applications with the VAT engine within the available time was proving to be a difficult task. The shift to VAT also required re-alignment of business practices to ensure that the end-to-end VAT process performed smoothly and reliably.

To comply with one of the biggest indirect tax reforms in the GCC, the bank's leaders selected SunTec VAT Solution. Their decision was driven by the many boxes that our solution ticked:

- Delivering continuity between legacy source systems and the VAT engine.
- Integrating all key systems with a single wraparound VAT engine that housed the logic for extraction, validation, calculation, and invoice processing.
- Ensuring that future regulatory changes can be easily and quickly handled.
- Assuring operational efficiency and regulatory compliance.

SunTec successfully integrated 25+ legacy applications to implement a GCC-compliant VAT solution for the bank. The solution included a spectrum of pre-built, feature-rich functional modules that cover credit and debit tax calculation, invoice generation, and reporting to enable complete compliance.

SunTec VAT Solution enabled the bank to:

- Manage 1,300,000+ VAT transactions per month

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- Achieve VAT compliance across 9 lines of business

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- Issue consolidated tax statements to merchants and individuals based on data extracted from various source systems (and duly validated)

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- Ensure business continuity between all key systems, including core banking and card system during VAT configuration

## 6

# e-Invoicing: The Logical Next Step

The move to indirect tax regimes such as VAT/GST is to ensure buoyancy of revenues. This requires that potential leaks, whether inadvertent or deliberate, be plugged. Under-invoicing, not generating tax invoices at all, fake purchase invoices and claiming input tax on non-qualifying transactions or beyond what is due are all examples of undesirable situations that sometimes arise. e-Invoicing, which is the practice of mandatorily generating digital tax invoices, helps in monitoring transactions and preventing malpractices that cause loss of revenue to the exchequer.

e-Invoicing works in tandem with a digital VAT regime, providing a higher degree of integration and reliability and controlling malpractices such as tax evasion and fake invoicing. Any undue input tax claims on fake purchase invoices can be monitored and controlled more effectively using e-invoicing. Within the GCC, Saudi Arabia has already begun implementing e-invoicing in a phased manner for different taxpayers and is now on an accelerated pace to integrate their ERP/POS with ZATCA's Fatoora portal. It is expected that other countries, such as UAE, Bahrain, and Oman will soon follow.

If you are considering implementing a VAT system, it makes sense to proactively plan for an e-Invoicing solution as well, given that the two are tightly coupled. Such a step can help you save money and time, besides giving your bank staff more time to get used to the new way that is imminent. Your proactive preparedness can be marketed as a benefit that helps attract new customers.

[Click here](#) to know more about our e-invoicing solution.



## *Author*

**Madhu M,**  
Senior Principal,  
SunTec Business Solutions

## 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 150 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](http://www.suntecgroup.com) or email us at [marketing@suntecgroup.com](mailto:marketing@suntecgroup.com)