

Solution spotlight | Assessing the impact of e-invoicing

Kingdom of Saudi Arabia | 31 May 2021



Following its announcement on 4 December 2020 that e-invoicing would be introduced in Saudi Arabia from 4 December 2021, the *Zakat, Tax and Customs Authority (ZATCA)* continues to issue technical guides and clarifications for taxpayers - with XML technical requirements issued on 28 May 2021. e-invoicing is yet another paradigm shift in Saudi Arabia's evolving tax landscape and will impact all Saudi-resident taxpayers.

How does e-invoicing differ from current invoicing requirements?

With e-invoicing, businesses will be required to generate invoices and notes - both credit and debit - in Extended Mark-up Language (XML) (or PDF/A-3 with embedded XML) and to clear those invoices and notes in real time through ZATCA's system before issuing them to customers. Standard PDF documents or scanned copies of paper invoices are not acceptable under the new rules.

When are businesses required to comply?

e-invoicing is happening in two phases:

- **Generation:** businesses must have systems that can generate e-invoices by 4 December 2021
- **Integration:** ZATCA will roll out integration in stages, with selected taxpayers required to integrate their e-invoicing systems with ZATCA's systems from 1 January 2023

When is an e-invoice required?

e-invoices that are compliant with ZATCA requirements must be issued for all taxable (either at the standard or zero rate of VAT) local supplies and:

- Exports of goods and services
- Intra-GCC supplies
- Nominal supplies
- Invoices related to advance payments

When is an e-invoice not required?

e-invoices are not required for:

- Exempt supplies (and any advances received for exempt supplies)
- Supplies subject to VAT under the reverse charge mechanism
- Imports of goods into Saudi Arabia

What must an e-invoice contain?

e-invoices must contain all the data currently required under article 53 of Saudi Arabia's VAT implementing regulations, as well as a:

- Universally unique identifier (UUID) – a 128-bit number generated by an algorithm
- Cryptographic stamp and QR code
- Hash – an enciphered text embedded in each invoice sequence, obtained by applying a one-way algorithm

While generation - the first phase - does not require, for example, cryptographic stamps, key decision makers at Saudi businesses would be well-advised to take the full requirements into consideration now. e-invoicing systems must:

- Have tamper-proof invoice counters - with any attempt to tampering generating alerts
- Allow offline archiving
- Be able to integrate with external systems (such as ZATCA's) using an application programming interface (API)
- Be able to receive purchase invoices in the ZATCA-prescribed format

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What should key decision makers at Saudi businesses be doing now?

Given the short time-frame available to amend systems, assessments of the impact of e-invoicing should start now, including:

- **Capability of current systems** – can current systems generate, store and receive e-invoices in the required format with the mandated systems functionality - or is an alternative (possibly external) solution required?
- **Data sourcing, accuracy and integrity**
 - Is data quality sufficient to populate e-invoices?
 - Does data accurately reflect the reality of transactions?
 - Is VAT logic applied correctly?
- **Underlying procedures** – are current processes robust enough to support a largely automated e-invoicing system?

How can Keypoint help?

As a leading professional services firm with deep tax and systems expertise, our multi-lingual IT consulting and tax advisory teams can:

- Assess the impact of e-invoicing on systems, data and underlying business process and procedures
- Identify data deficiencies that are likely to increase the risk of non-compliance - or a ZATCA audit
- Guide you in designing your business requirements

Beyond an impact assessment, we can:

- Advise you on an external solution
- Support you through the implementation process
- Verify systems - in preparation for both the generation and implementation phases
- Provide assistance post-implementation

Please contact us for more details on how we can support you with this significant, time-sensitive challenge.

Contact us:

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Disclaimer: This tax alert is based on our review of ZATCA's draft e-invoicing regulations and our understanding of Saudi Arabia's VAT legislation, the GCC framework agreement and general VAT principles. **It is for general information only.** Seek professional advice in relation to your particular circumstances.