How to Prepare for E-Invoicing and Comply with ZATCA's Regulations

All you need to know about meeting your e-invoicing obligations in the Kingdom of Saudi Arabia

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Introduction

The following guide, prepared by Thomson Reuters, is designed to help ensure your organisation complies with the Kingdom of Saudi Arabia's electronic invoicing (e-invoicing) regulations.

With Phase 1 – **the Generation Phase** – of e-invoicing already underway, this guide will help prepare your **transition to Phase 2** and adapt quickly to future developments in the world of e-invoicing and tax.

While we focus on requirements in Saudi Arabia, this guidance is also relevant to the wider GCC region. Experts predict that other GCC member states may follow the same approach in the years to come.

Background

The Kingdom of Saudi Arabia's General Authority for Zakat, Tax, and Customs Authority (ZATCA) implemented e-invoicing in December 2021, following countries such as Chile, Argentina, Brazil and Italy, which already have progressive e-invoicing systems in place.

As the first country in the GCC to introduce e-invoicing, Saudi Arabia has opted to implement the regime in two phases. Phase 1 – the Generation Phase – has already been enforced, while Phase 2 – the Integration Phase – will be rolled out in waves by targeted groups of taxpayers from 1 January 2023. **ZATCA has advised** that taxpayers will be notified when their waves start at least six months in advance. This phase entails **additional mandatory technical requirements**, including the integration of taxpayers' electronic systems with ZATCA's Portal and the issuance of electronic invoices in a specific format.

What is e-invoicing?

According to ZATCA, e-invoicing is an electronic process that allows the exchange and processing of invoices, credit notes and debit notes in a structured electronic format between buyer and seller through an integrated electronic solution.

This process replaces paper billing entirely. A paper invoice that is converted into an electronic format or file through copying, scanning or any other method is not considered to be a compliant e-invoice.

Why is Saudi Arabia introducing e-invoicing?

A well-run e-invoicing system makes tax data available in a standard, accurate format. This increases transparency, facilitates the audit process, and makes it easier for tax authorities to monitor, control and govern the tax system – helping to reduce the shadow economy. In Mexico, for example, **the OECD reports** that 4.2 million micro-businesses have been brought into the formal economy.

Improved governance also helps to combat tax evasion and close the tax gap. The **IMF explains** that "By improving control over the invoicing process and allowing for real-time monitoring of taxable transactions, tax administrations may be able to reduce sales omission, purchase over-invoicing (including the reporting of purchases that are not related to business operations), fraudulent transactions, and general tax submission errors, thus reducing tax non-compliance."

There are also multiple benefits for businesses. E-invoicing makes transactions and trade more seamless and efficient, supporting faster payments and reduced costs. With the right system in place, e-invoicing can generate significant time savings, allowing indirect tax professionals to focus on strategic work that builds business resilience. It also enables fair competition and improves consumer protection in the market.

A longer-term benefit is that e-invoicing is a key step in the digital transformation of tax administration – or 'Tax Administration 3.0' as the OECD calls it. Companies that prepare well for e-invoicing now will be in a better position to adapt as Tax Administration 3.0 gathers momentum.
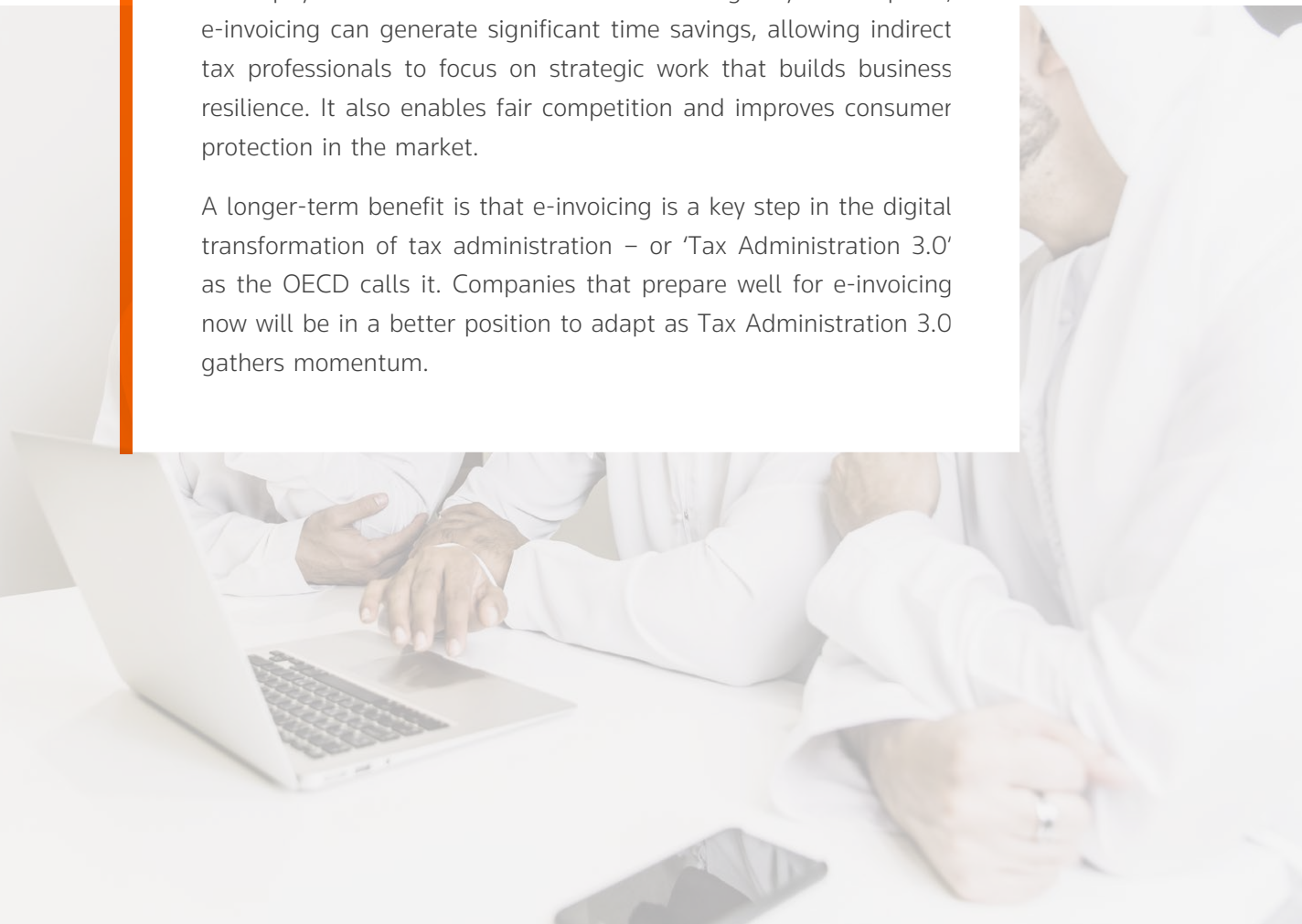
Why prepare now for Phase 2?

The government of Saudi Arabia has invited relevant companies to partake in the first wave of e-invoicing Phase 2. The regulations for this Phase will provide an important foundation for taxpayers to complete their e-invoicing implementation. During Phase 2, also known as the integration phase, organisations are required to integrate their system with ZATCA's platform to attain authorised tax invoices and generate XML files of Tax and Simplified electronic invoices in the format legally required in Saudi Arabia. They must report transactions for which Simplified Tax Invoices have been issued.

Organisations are currently in the process of determining the right software product for them and are undergoing trials from solution providers based on their budgets and existing skill set level of staff. Others have already selected their vendors and are in the process of integrating their system with the Fatoora Portal.

According to Aurifer, a tax firm serving the GCC, many are quite overwhelmed with this development. Tax teams are already under a lot of pressure with other developments in the field such as preparation for BEPS 2.0. Overall, the market has a high demand for professionals who have cross functional knowledge in tax law, taxology, IT systems and data analytics. Emphasis on such recruitment is based on the ability to merge the isolated worlds of the tax function and the IT function, as well as communicating effectively to various stakeholders.

It is important to mention that although companies may not be part of the initial first wave, it is essential they prepare for implementation when the time comes. ZATCA have advised companies to avoid last minute implementation and encourage them to start early to get the full support from the tax authority. Organisations need to review their systems, make sure all the information provided is accurate, understand their data and carry out the appropriate level of testing and amendments in a timely manner to ensure they avoid penalties and do not fall under the scrutiny of noncompliance.

Preparing for phase 2

Your essential e-invoicing checklists

1.

Define your strategy

Start by evaluating your company's levels of e-invoicing compliance to date. Identify any gaps that may exist in your Phase 1 compliance programme and formulate a strategy for addressing these challenges. At the same time, make sure you have a clear understanding of your obligations for Phase 2, particularly your tax and technology requirements.

2.

Determine your tax requirements and assign resources

Assess whether you have the skills and expertise required to manage your tax and compliance obligations for Phase 2 of e-invoicing.

Assigning dedicated resources to this project will ensure a swift and smooth implementation. Create a strategic cross-functional team with IT and tax skills to successfully implement e-invoicing. The key resources that should be involved include:

- IT Department including IT Security Team
- Tax and Finance: Tax Managers, Tax Advisor, Order-to-Cash Team, Accounting Team
- Procurement
- Operations
- Project Management
- Branding Team

3.

Conduct a system analysis

A critical step in preparing for Phase 2 is to conduct an analysis of the technology systems you currently have in place. Evaluate whether these can handle the tax authority's new **technical and security requirements**, and that the hardware arrangement for software installation meets the e-invoicing provider's requirements.

Put simply, you must be capable of exchanging invoice data with ZATCA electronically via a compliant system integration. You must also be confident in the accuracy of your tax results, and ensure all data exchanged with ZATCA is complete and in the correct format.

We have provided some checklists below to get you started. Due to the technical nature of the published requirements for Phase 2, we recommended that you work with your IT team and technology solution provider to understand the published requirements, investigate whether your systems offer the requisite capabilities, and define a technology roadmap to address any gaps that are identified.

To have a truly end-to-end transformation, multiple business functions need to simultaneously be transformed. For example, unless the governance functions are digitalised / transformed, its integration with the tax functions would be incomplete.

Not doing so runs the risk that some tax functions would be performed in an 'analog' manner, while others in a 'digitalised' manner. This would create an impediment in the comprehensive transformation within the tax function and it would risk such a function not being able to keep pace with the tax-tech developments that Saudi Arabia and other countries are undertaking.
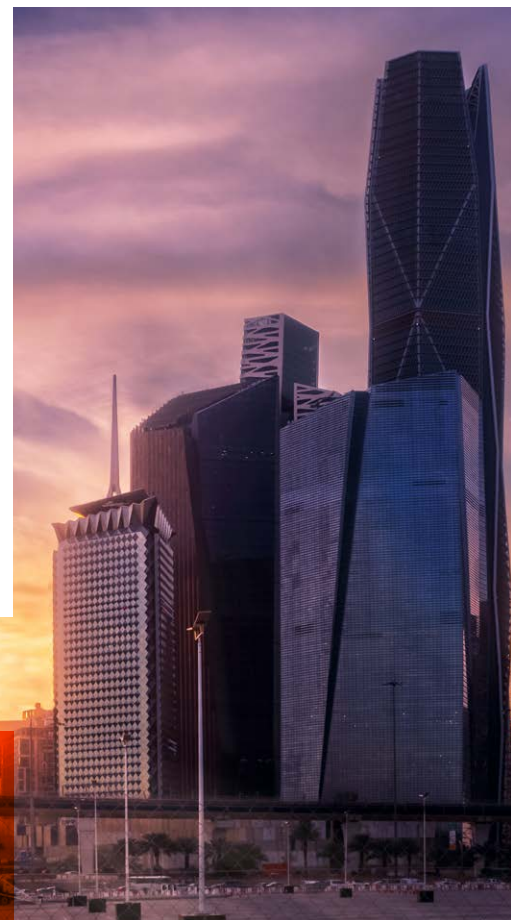
Your essential e-invoicing checklists

Data-readiness checklist:

- Do you fully understand your organisation's data and IT landscape?

- Do you know where data is located – in which departments and source systems?

- Are you confident all your data required for e-invoicing is complete, accurate and verifiable?

- Are you capable of digitally collecting and collating all the data you require for creating compliant e-invoices, in real-time from your source systems?

- Can you effortlessly translate data into the formats required by ZATCA's e-invoicing portal?

- Is your master data available in Arabic?

Technical requirements checklist:

Can your existing systems:

- Use input data to generate standard and simplified tax invoices, credit notes and debit notes in the correct format, including all the required fields?

- Store and archive invoices and associated notes for the time period mandated by ZATCA? (The requirements are: six years for standard assets, 11 years for moveable and intangible capital assets, and 15 years for real estate.)

- Offer you the flexibility to choose from a range of data upload options?

- Generate the following mandatory invoice components?
  - Universally unique identifier (UUID)
  - Invoice hash
  - Invoice counter
  - QR code in Base64 format with all required fields encoded in tag-length-value (TLV) format
  - Cryptographic stamp

Validation checklist:

Can your existing systems:

- ✔ Validate your invoices: both on e-invoicing and when the invoice is shared with tax authorities?

- ✔ Use the ZATCA Software Development Kit tool to verify the compliance status of your generated e-invoices?

Integration capabilities checklist:

- ✔ How will your systems integrate with ZATCA's portal or potential access points?

- ✔ Are these integrations compliant?

- ✔ Will these integrations be complex to build and maintain, monopolizing your time and resources?

Security features checklist:

- ✔ Can your existing systems meet **ZATCA security requirements**, including data residency requirements in Saudi Arabia?

- ✔ Are you aware of your organisation's policies around data security? (This will be critical as the tight security policies necessary in certain sectors, such as banking, could impact your implementation timeline.)
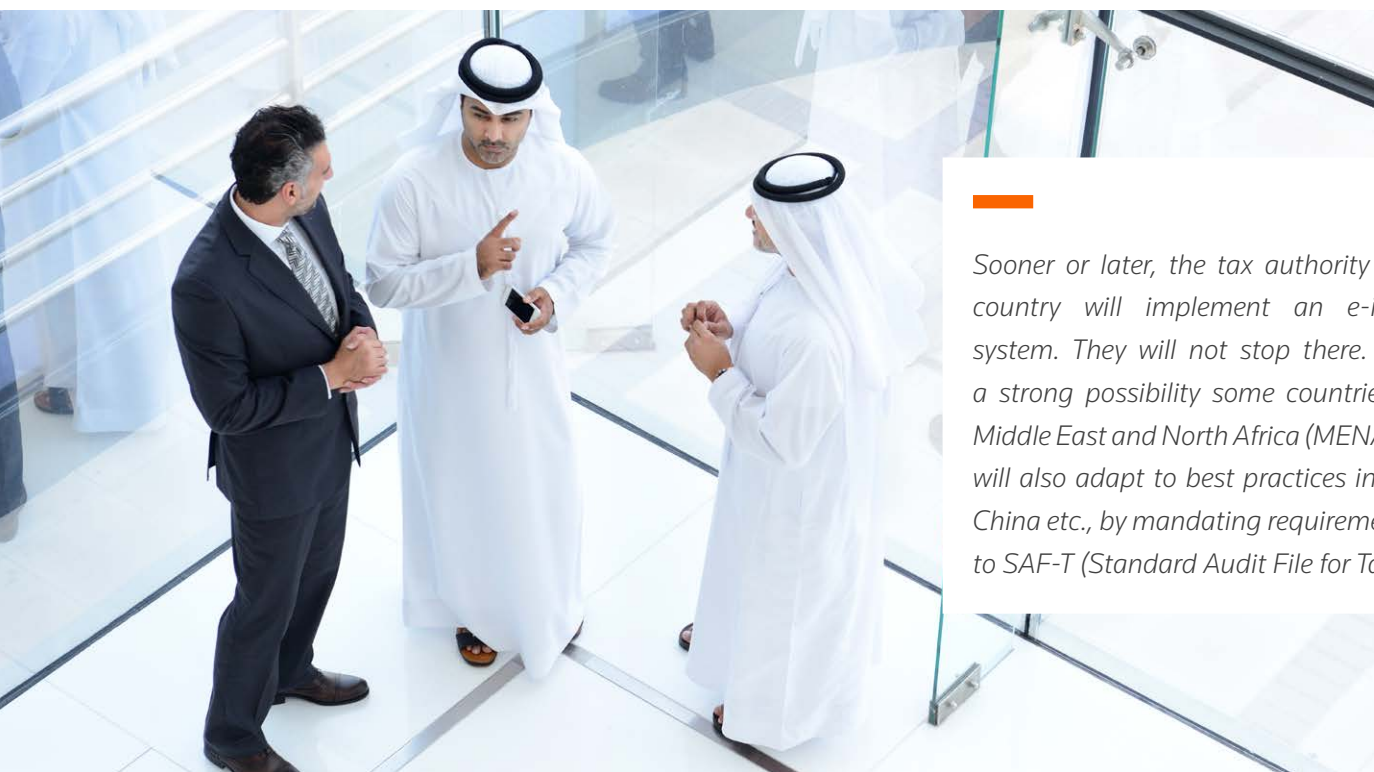
Sooner or later, the tax authority of every country will implement an e-invoicing system. They will not stop there. There is a strong possibility some countries in the Middle East and North Africa (MENA) region will also adapt to best practices in Europe, China etc., by mandating requirements akin to SAF-T (Standard Audit File for Tax).

4.

Design your implementation process

This may require you to liaise with stakeholders. Consultation and planning with vendors and third parties before you begin will also ensure a smooth implementation process.

Each organisation will have their own software implementation requirements, so it is important that you are aware of these. For instance, you may need to involve your CIO, Sales leads, Procurement leads and Heads of Tax to ensure your implementation journey runs smoothly and complies with how your company operates and onboards new vendors.

Also, be aware of the timescale to reduce your risk of missing the enforcement deadline. Thomson Reuters, for example, can complete the implementation process within 12 to 16 weeks for Phase 2.

5.

Conduct internal education and training

Everyone in your organisation should have a clear understanding of your e-invoicing compliance obligations, their roles and responsibilities in that regard, and potential penalties for non-compliance. Clearly document, communicate and train people on the correct e-invoicing procedures.

If you are introducing a new e-invoicing solution, your technology provider should provide thorough on-boarding and training on how to use the system. You should ideally have access to ongoing support from a local team.

6.

Implement a governance structure

Even if you have the right e-invoicing software in place, you will still require internal governance to reduce the risk of compliance breaches. It's therefore critical to put a tax data governance structure in place around e-invoicing. Include a policy and strategy for managing tax data and interacting with the tax authority.

Planning Ahead

How to plan ahead

When planning an e-invoicing and tax technology strategy, you need to account for ongoing regulatory change, the steady digital transformation of tax administration, and the global call for increased transparency in tax data. E-invoicing is just the first step.

What to expect from the tax authorities?

- **In the medium term:**
  Consider the potential launch of e-invoicing in the UAE and Oman.

- **In the medium to long term:**
  Tax authorities in the region may request access to your transactional data in real-time, conduct pre-filling of your VAT return, and audit your business without your knowledge, among other developments.

With all that in mind, you need a strong solution that can meet both current and future requirements.

Working with a trusted technology solutions provider like Thomson Reuters to define a tax technology roadmap will help you to make technology decisions that deliver long-term value. Thinking ahead and getting the right systems in place now will prepare your business for all phases of e-invoicing, ongoing developments in VAT, and the evolution of the wider tax regulatory landscape.

How Thomson Reuters can support your e-invoicing journey

ONESOURCE E-Invoicing meets all the technical and legal requirements for e-invoicing in the Kingdom of Saudi Arabia – for Phase 1, Phase 2 and future developments.

The system is designed to automate the issuance, exchange and processing of tax e-invoices, simplified tax e-invoices, credit notes and debit notes in the format specified by ZATCA. It also ensures effortless, secure integration with the ZATCA E-invoicing platform.

Thomson Reuters ONESOURCE has been officially included in **ZATCA's E-Invoicing Solution Providers Directory**. This listing indicates that our E-Invoicing solution has passed ZATCA's qualification process, and that we have met the legislative requirements as an e-invoicing solution provider in the Kingdom. Thomson Reuters is also participating in the ZATCA Integration Pilot Project for Phase 2.

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Key capabilities:

The Thomson Reuters ONESOURCE e-invoicing solution:

- Generates all types of e-invoices and automatically converts input data from your source systems to the required format (XML or PDF/A-3 with embedded XML).
- Integrates seamlessly with the ZATCA e-invoicing platform through APIs provided by ZATCA, for a smooth and successful clearance and reporting process.
- Offers multi-landscape integration capabilities with your ERP platforms and non-ERP applications.
- Provides flexible data uploading options: real-time upload through APIs, batch upload using SFTP or manual upload.
- Verifies the compliance status of your generated invoices using the ZATCA Software Development Kit tool.
- Delivers summary and reconciliation reports to ensure that all your taxable invoices have been reported to ZATCA.
- Complies with data residency requirements in Saudi Arabia, as a fully on-premises solution.

To help you adapt to new rules and regulations, ONESOURCE E-Invoicing is continually updated in line with new requirements. Furthermore, Thomson Reuters compliance experts will make sure you understand the impact of any new developments on your e-invoicing processes.

Thomson Reuters capabilities for e-invoicing:

On-Premise solution

Our on-premises solution complies with the data residency requirements in Saudi Arabia. The technology is tamper-proof and includes a mechanism that allows detection of any data intervention or manipulation.

ZATCA Compliant

Fully integrates seamlessly with the ZATCA e-invoicing platform through APIs provided by ZATCA, for a smooth and successful clearance and reporting process.

Integrated Solution

Solution built with the latest insights from ZATCA on the technical, functional and operational requirements. Successfully tested with ZATCA for integration.

End to end solution

Our solution can take care of it all, from VAT determination, to compliance to e-invoicing.

ENQUIRE NOW

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