A guide to KSA e-Invoicing Phase 2

Ensure compliance for ZATCA's latest e-invoicing mandate in Saudi Arabia, effective January 2023

Cygnet TaxTech

Contents

Cygnet TaxTech

E-invoicing in the Kingdom of Saudi Arabia

Historically, the automation of business processes and tax reporting has evolved somewhat independently, or in worst case, have remained isolated processes and data silos. The overlap between these functions is steadily increasing with the tax authorities demanding more transparency and real-time access to information. Introduction of e-invoicing across the globe in last few years is one such move towards enhanced business processes and tax reporting.

e-Invoicing in KSA – what has changed and what is changing with e-invoicing?

Electronic invoicing is a process aimed to transform the traditional practice of issuing the paper invoices to digitalize the process for the exchange of invoices in a structured electronic format between buyer and seller through a unified process. E-invoicing also provides real-time invoicing data to the government and helps in plugging revenue leakages.

Applicability of the mandate to generate e-invoices

The e-invoicing regulations mandate all natural or legal persons who carry on an economic activity and are registered for VAT in KSA or are required to be registered for VAT in the KSA to generate e-invoices and comply with the e-invoicing provisions.

> **Thus, the following categories of taxpayers would be covered within the scope of e-invoicing:**
>
> - A taxable person/business who is a resident in the Kingdom
> - The customer or any third party who issues a tax invoice on behalf of the taxable person that is a resident in KSA according to the VAT Implementing Regulation.

The taxpayers who are not resident of the KSA for the purpose of VAT laws are not required to issue electronic invoices for supplies or amounts received, which are subject to tax in KSA.

The documents covered under the scope of e-invoicing

E-invoices (tax invoices) are required to be generated for all the transactions that are subject to VAT while electronic (debit and credit) notes are required for the following transactions:

Cancellation or suspension of the supplies after its occurrence either wholly or partially.	In case of essential change or amendment in the supply, which leads to the change of the VAT amount	Amendment of the supply value which is pre-agreed upon between the supplier and consumer	In case of goods return or refund for services.

Cygnet TaxTech

Types of e-invoices

The e-invoices can be either the standard invoice or a simplified tax invoice, depending on the recipient to whom it is issued.

1 **Electronic Invoice (Standard Invoice)**

An electronic invoice is an invoice issued for most B2B and B2G transactions. This type of document is used for claiming input VAT deduction by buyers. Standard invoices will be issued to the buyers after being cryptographically stamped and "cleared" by ZATCA (after integration with the ZATCA portal in the Integration Phase starting from January 2023).

2 **Simplified E-Invoice**

Simplified e-invoices are designed for most B2C transactions that are instant and where the buyer does not need to use the invoice for input VAT deduction. Simplified e-invoices are issued to the buyers/customers at the point of sale and are shared with the customers and a copy is subsequently archived and stored.

During the Generation Phase, it is sufficient for persons subject to the e-invoicing regulation to share the simplified e-invoices with customers, with no further action needed. During the Integration Phase, simplified e-invoices would need to be reported to the ZATCA within 24 hours of issuance.

Type of transaction	Tax e-Invoice	Simplified e-Invoice
Taxable supplies subject to the standard rate valued at SAR 1,000 or more, made to a taxable person or non-taxable legal person	✓	✗
Taxable supplies of goods or services (other than exports of goods) made to a taxable person or non-taxable legal person, valued at less than SAR 1,000	✓	✓
Export of goods	✓	
Taxable supplies made to a non-taxable natural person (other than exports of goods)		✓
Supplies which are totally exempt from VAT in the KSA	✗	✗
Zero-rated supplies valued at SAR 1,000 or more, made to a taxable person or non-taxable legal person	✓	
VAT due under Reverse Charge Mechanism	✗	✗
Intra-GCC supplies	✓	
Supplies outside the scope of VAT	✗	✗
Imports of goods	✗	✗
Nominal supplies (not presented to customer but retained for audit purposes)	✓	

Types of e-invoices

3 **Credit and Debit Notes**

Electronic credit / debit notes are issued for an e-invoices / a simplified e-invoices wherein the transaction is adjusted. Credit and debit notes must be issued with a reference to the original invoice(s) to which they are issued.

The credit/debit note types follow the type of invoice that they are issued against i.e. a standard electronic note is issued for a standard e-invoice, and a simplified electronic note is issued for a simplified e-invoice.

4 **Summary Invoices**

Summary tax invoices are a type of tax invoice that includes more than one supply of goods or services. Suppliers who have periodic (e.g. monthly) invoicing practices may issue one commercial invoice containing all the supplies made in that period in favor of a single customer according to the VAT Legislations.

5 **Special billing arrangements (self-billing and third-party billing)**

The taxable buyer may issue tax invoices on behalf of the supplier, provided that the tax authority approves and applies the special requirements mentioned in the regulations and that the supplier remains responsible before the Authority for the accuracy of the data included in the tax invoices. In this case, the buyer must generate tax invoices in an electronic format in accordance with the provisions of the e-invoicing regulation.

Third party billing is where transactions are invoiced by an external party, like an accounting firm, is engaged to issue invoices on behalf of the seller after fulfilling certain requirements.

Supplies covered under e-invoicing in KSA

Baring few specified cases such as exempt supplies or import of goods, e-invoicing will be applicable for all kind of outward supplies as mentioned below:

Supplies subject to the standard VAT rate or Zero rate:

E-invoice is required for supplies made to a taxable person or non-taxable legal person subject to the standard VAT rate or zero rate if valued at SAR 1,000 or more.

Export of goods:

A (standard) e-invoice is required for all exports of goods, regardless of the value of the supply or status of the customer.

Intra-GCC supplies:

Supplies of goods or services from a supplier residing in the Kingdom to a customer residing in any member state of the Gulf Cooperation Council shall require an electronic invoice in all cases.

Advance payments:

An e-invoice must be issued on the date of receiving the payment that is related to a supply of goods or services if the payment is made before the actual supply (in cases of part-payment, an e-invoice must be issued for the portion of consideration paid).

Nominal supplies:

A nominal supply is an actual supply of goods or services to another person for no consideration. In principle, this should not include the supply of free of charge samples and gifts which have immaterial value provided under the normal course of business (less than 200 SAR).

Transactions that do not require issuance of e-invoices

Taxable persons are not required to generate e-invoices and/or notes for the following categories of transactions:

Exempted Supplies:

For any domestic supplies of goods or services which are exempt from VAT under KSA VAT Law and Implementing Regulations (such as qualifying financial services, or residential rental).

Advance payments relating to exempted supplies:

Any payments related to exempted supplies and received by a taxpayer.

Supplies subject to VAT pursuant to Reverse Charge Mechanism:

E-invoice is not required to be generated by the taxable person receiving services in KSA from a non-resident supplier which is liable for VAT under the Reverse Charge Mechanism.

Import of goods:

Import of goods have VAT applied by, and paid to, the customs as part of customs clearance, hence the importer is not required to generate e-invoice.

Phases for implementation of e-invoicing

The implementation of the change of this level and magnitude requires the partnership between the taxpayers, tax authorities and the facilitating service providers. To smoothen the transformation, e-invoicing in the KSA is being implemented in the phased manner.

In the first phase, businesses were required to generate and store compliant electronic invoices using compliant e-invoicing systems. The first phase has been enforced from 4th December 2021 for all the resident taxpayers and any other parties issuing tax invoices on behalf of the suppliers subject to VAT.

The second phase, likely to be enforced in waves, starting from January 2023, will require the e-invoicing software or systems of the taxpayers to be integrated with ZATCA, the governing authority for tax and e-invoicing in the KSA through standardized protocol to enable data interoperability between the government's system and the taxpayers.

4 Dec 2021

Phase 1: Generation Phase — All VAT payers (excluding non-residents)

1 Jan 2023 | 1 July 2023 | 1 October 2023

Phase 2: Integration Phase — TP Group Wave 1 | TP Group Wave 2 | TP Group Wave 3 | etc.

Cygnet TaxTech

PHASE 1:

Generation Phase

Phase 1 required the taxpayers to generate and store tax invoices and associated notes through electronic solutions compliant with the e-invoicing requirements and specifications issued by the ZATCA. Manual invoices issued by such taxpayers are no longer considered as compliant invoices.

The invoices issued during the phase 1 shall include the specified mandatory fields, QR code would be required only for B2C supplies.

4 Dec 2021

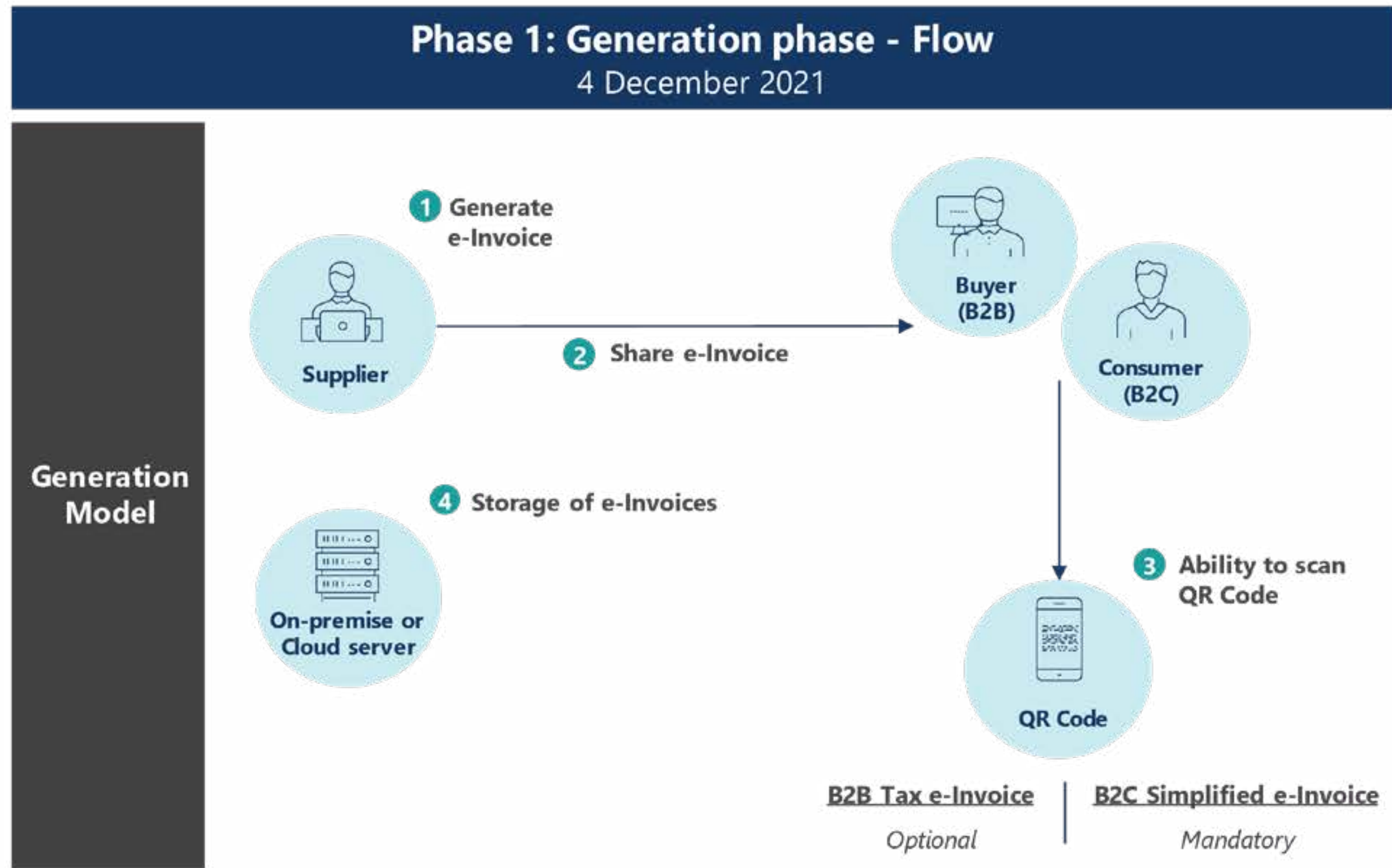**Phase 1:** Generation Phase | All VAT payers (excluding non-residents)

E-Invoicing Solution Requirement for Phase 1 (Generation Phase)

Requirements		e-Invoice	Simplified e-Invoice
Invoice Generation	Invoice generation means	Electronic Invoices must be generated through electronic means	
	Invoice fields	Generate electronic invoice with non-integration related fields	
	Invoice format	No format mandated	
	Invoice storage	Invoices must be archived as per VAT regulations and accessible at any point in time to the Authority	
Security & Integrity	QR code	Not mandated	QR code included with basic invoice and taxpayer information
	Cryptographic stamp	Not mandated	
	Device Registration	Not mandated	
	UUID	Not mandated	
	Hash	Not mandated	
Integration	Internet Connectivity	Solution must be able to connect to the internet	
	Invoice clearance	Not mandated	
	Invoice reporting	Not mandated	

Illustrative diagram for Generation Phase

Phase 1: Generation phase - Flow
4 December 2021

Generation Model

1 Generate e-Invoice

Supplier

2 Share e-Invoice

Buyer (B2B)

Consumer (B2C)

4 Storage of e-Invoices

On-premise or Cloud server

3 Ability to scan QR Code

QR Code

B2B Tax e-Invoice — *Optional*

B2C Simplified e-Invoice — *Mandatory*

Phase 1: Generation phase
4 December 2021

QR Code must contain:

- Seller's name
- Seller's VAT Registration No.
- Time Stamp (date & time)
- Invoice Total
- VAT Total

Invoice data to be generated and stored in electronic format

Cygnet TaxTech

Prohibited functions for e-invoicing solution in generation phase:

To ensure the sanity and authenticity of the data, the ZATCA requires the e-invoicing solutions to have user management capabilities and prevent unauthorized operations that may lead to fraudulent manipulation or access to data for any purpose. The functions prohibited during the generation phase includes the following:

Anonymous access:

Persons subject to the e-invoicing regulation cannot access the system without logging into the system using unique login and password or biometrics.

Ability to operate with default password:

Having a default password or factory password is not allowed. Each system must require the user to reset the password on first use.

Absence of user session management:

The system must log all user activities associated with the invoice generating process, starting with login authentication and continuing to all system functions.

Allow alteration or deletion of generated e-invoices or their associated notes:

Persons subject to the e-invoicing regulation are not allowed to modify or delete invoices once they are issued whether these are generated by the system or outside it. If a user wishes to 'cancel' an invoice, this may only be done through issuing an associated credit note.

Allow for log modification/deletion:

The system must not allow any modification on system logs that store the system's activities. All user activities can be logged and stored without any changes to the system generated logs

Generate inaccurate timestamps:

Persons subject to the e-invoicing regulation are not allowed to change time or date on the e-invoice solution in a way that would result in the generated documents to contain false information

Non-sequential log generation:

All log entries of the e-invoice solution must be time stamped and linked by placing the hash of the previous invoice in the associated field of the next invoice in a sequence, so that their order cannot be changed.

Invoice counter reset:

The e-invoice solution must not provide a feature where the invoice counter can be reset.

FAQs for the generation phase

What does an e-invoice look like and how is it different from current invoices?

E-invoices required in Phase 1 are similar to current invoices, with minimum additional fields.

- For simplified tax invoices and their associated notes (usually issued for B2C transactions), QR code is mandatory.
- For tax invoices and their associated notes (usually issued for B2B transactions), QR code is optional. VAT number of the buyer is mandatory if the buyer is a registered VAT taxpayer.

There is no specific format mandated for Phase 1, however, invoices must include the mandatory fields and must be issued from an e-invoicing system meeting ZATCA's requirements. In addition, electronic copies of all issued invoices must be stored by the taxpayer.

Does the e-invoices need to be approved by ZATCA before sharing them with the buyer, or reported to ZATCA after issuing them?

Phase 1 requirements does not require the taxpayers to get the invoices approved, cleared or reported to ZATCA.

What are the minimum requirements that must be contained in the QR Code?

In the Phase 1, the QR code is mandatory only for the simplified tax invoices. The QR code shall be required to contain the following minimum fields that must be shown after scanning a QR code in a simplified tax invoice:

- Seller's name
- VAT registration number of the seller
- Time stamp of the electronic invoice or credit/debit note (date and time)
- Electronic invoice or credit/debit note total (with VAT)
- VAT total

What should taxpayers do if they are unable to issue e-invoices due to any incidents, technical error or emergency matter?

Taxpayers should take steps to ensure their e-invoicing solutions are properly functioning at all time. However, if despite taking necessary steps the taxpayer faces incidents, technical errors or emergency matters which hinder the generation of electronic invoices or electronic notes, the taxpayer must communicate the incident to the solution provider and keep evidence of their communication, as well as shall notify the ZATCA.

Upon resolution of the issue, taxpayer shall notify ZATCA and resume the generation of e-invoices for all transactions conducted during the interruption period.

Cygnet TaxTech

Integration Phase: Waves of e-Invoicing

Phase 2 of KSA also known as the Integration phase has rolled out in waves from January 2023, for the targeted taxpayer group. Phase 2 will entail additional technical requirements that e-invoicing systems must comply with, the integration of taxpayer electronic systems with ZATCA, and the issuance of electronic invoices in a specific format.

The target group of taxpayers for the implementation waves is selected by the ZATCA based on a certain set of pre-determined criteria and the target groups will be informed of the integration procedures with the authority's systems at least six months before the date set for integration with the target group or groups.

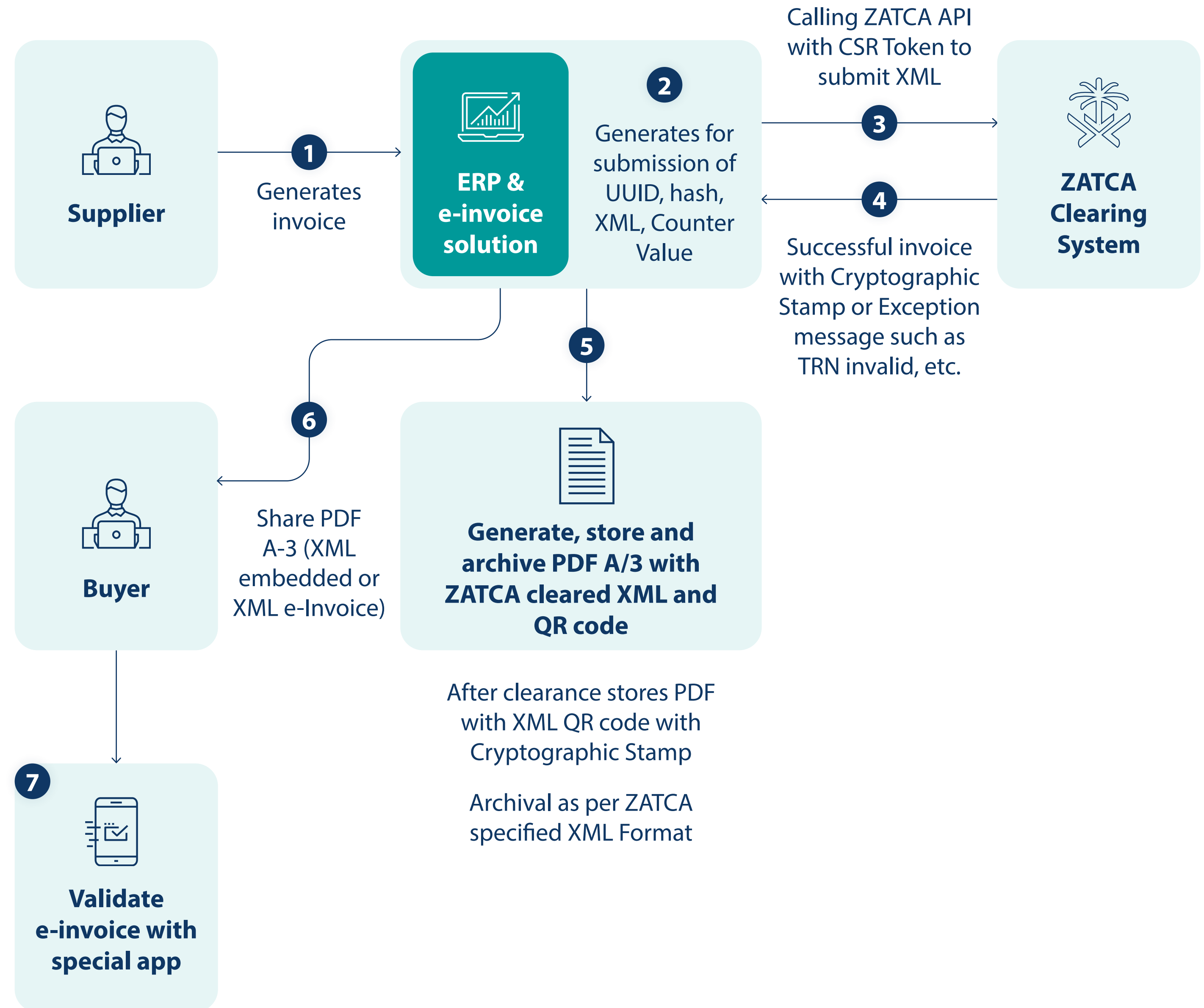|	Effective Date **1 Jan 2023**	Effective Date **1 July 2023**	Effective Date **1 Oct 2023**
	Deadline **31 June 2023**	Deadline **31 Dec 2023**	Deadline **31 Jan 2024**
Phase 2: Integration Phase	**TP Group Wave 1**	**TP Group Wave 2**	**TP Group Wave 3** etc.
Taxable Revenue Criteria	Above 3 Bn SAR in the year 2021	Above 500 Mn SAR in the year 2021	Above 250 Mn SAR in the year 2021 or 2022

E-Invoicing Solution Requirement for Phase 2 (Integration Phase)

Requirements		e-Invoice	Simplified e-Invoice
Invoice Generation	Invoice generation means	Invoices must be generated through electronic means	
	Invoice fields	Generate additional fields required for integration Phase	
	Invoice format	Invoices must be generated in XML format or PDF/A3- format with embedded XML	
	Invoice storage	Invoices must be archived as per VAT regulations and accessible at any point in time by the Authority	
Security & Integrity	QR code	No requirement from the taxpayer. The QR code value will be generated by the taxpayer's solutions and the e-Invoicing Integration Porta will update the code during the Clearance process. The QR code will then be printed to be visualized on the human readable invoice by the taxpayer.	QR code mandated with additional information for phase 2 (Integration Phase)
	Cryptographic stamp	No requirement from the taxpayer. Cryptographic stamps are applied by the Authority E-Invoicing Integration Portal.	Cryptographic stamp mandated
	Device Registration	Not mandated	Compliant solutions must be registered on the Authority E-Invoicing Integration Portal using unique device ID
	UUID	To be included as part of the e-Invoice	
	Hash	To be included as part of the e-Invoice	
Integration	Internet Connectivity	Solution must have ability to connect to the internet for invoice clearance	Solutions must have the ability to connect to the internet for simplified e-Invoice reporting
	Invoice clearance	E-Invoicing Integration Portal in real-time via API (for clearance)	Not mandated
	Invoice reporting	Not mandated	Upload of invoices to the e-Invoicing Integration Portal via API whenever connected

Illustrative diagram for Integration Phase

E-Invoice Generation for B2B/B2G transactions

Each e-invoice must be cleared by the ZATCA as a prerequisite for sharing them with the buyers and for such e-invoice to be regarded as legal and valid.

Clearance is a real-time transaction integration model of e-invoices, where after integration, the taxpayer directly sends the electronic invoice to the tax authorities prior to sharing with the buyer. Electronic invoices are then validated across several categories of varying level, and if approved, are stamped by the tax authority and returned to the taxpayer. Clearance applies to all e-invoices and their associated credit/debit notes (other than simplified invoices/notes)

Supplier

1 Generates invoice

ERP & e-invoice solution

2 Generates for submission of UUID, hash, XML, Counter Value

Calling ZATCA API with CSR Token to submit XML

3

4

ZATCA Clearing System

Successful invoice with Cryptographic Stamp or Exception message such as TRN invalid, etc.

5

6 Share PDF A-3 (XML embedded or XML e-Invoice)

Buyer

Generate, store and archive PDF A/3 with ZATCA cleared XML and QR code

After clearance stores PDF with XML QR code with Cryptographic Stamp

Archival as per ZATCA specified XML Format

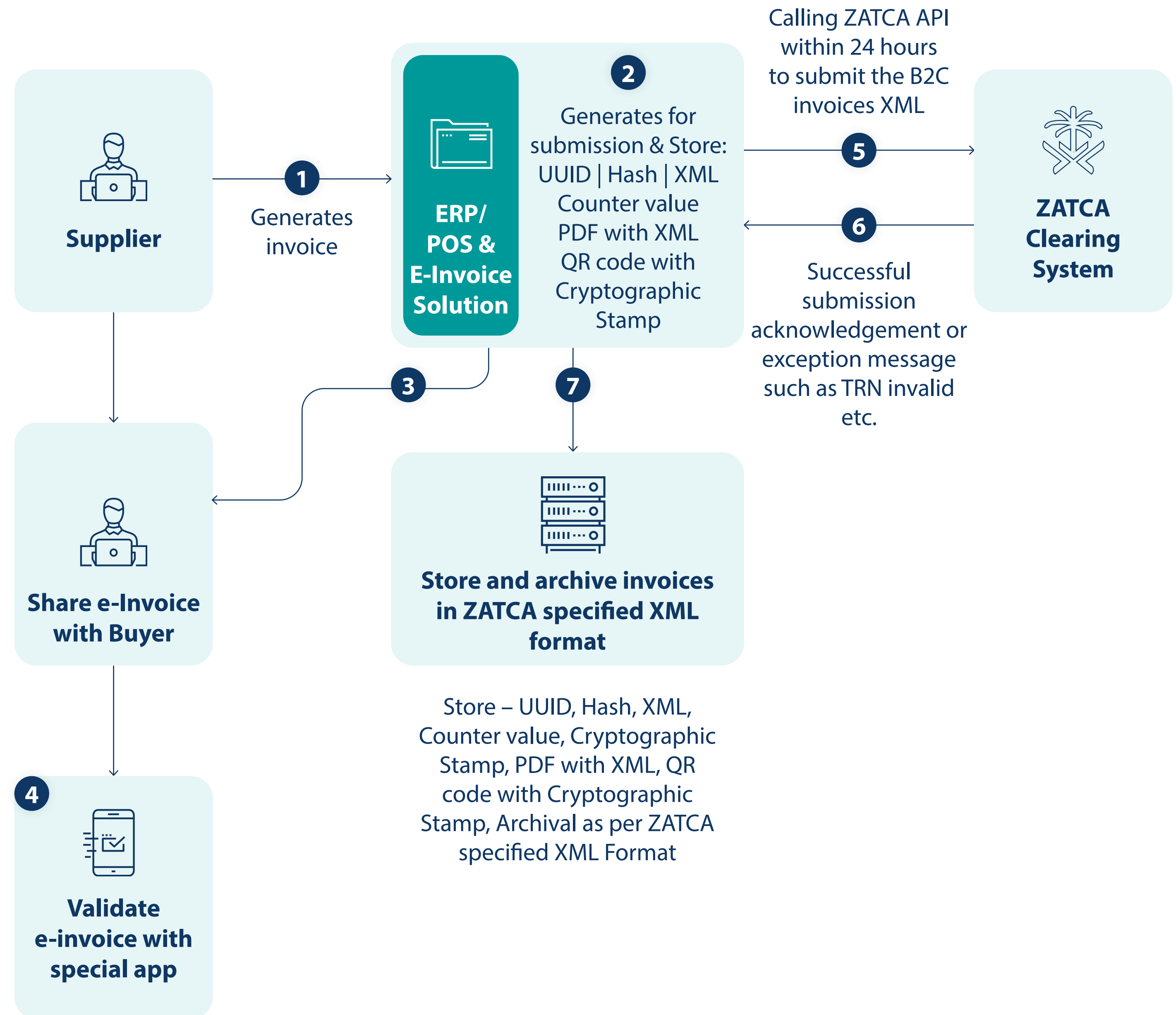7 **Validate e-invoice with special app**

Illustrative diagram for Integration Phase

Simplified e-invoice generation for B2C transactions

Taxable persons must report the simplified e-invoices to the tax authority.

Reporting is a near-real time transaction model, where simplified e-Invoices and its associated notes are reported to the tax authority within 24 hours from issuance. Once uploaded, simplified electronic invoices are then validated, and an acknowledgement through the API is reported back to the taxpayer.

Simplified e-invoices must be generated using compliant e-invoicing solution and reported to the integration portal as set out by ZATCA under the Controls, Requirements, Technical Specifications and Procedural Rules for Implementing the Provisions of the E-invoicing Regulation and further subsequent resolutions.

Supplier

1 Generates invoice

ERP/ POS & E-Invoice Solution

2 Generates for submission & Store: UUID | Hash | XML Counter value PDF with XML QR code with Cryptographic Stamp

Calling ZATCA API within 24 hours to submit the B2C invoices XML

5

6

Successful submission acknowledgement or exception message such as TRN invalid etc.

ZATCA Clearing System

3

Share e-Invoice with Buyer

4

Validate e-invoice with special app

7

Store and archive invoices in ZATCA specified XML format

Store – UUID, Hash, XML, Counter value, Cryptographic Stamp, PDF with XML, QR code with Cryptographic Stamp, Archival as per ZATCA specified XML Format

Cygnet TaxTech

Prohibited functions for e-invoicing solution in integration phase:

In addition to the functions prohibited under Phase 1, the integration phase shall have the following additional prohibitions such that it should have tamper-proofing mechanisms that prevent any modification or tampering with invoices or the solution itself, and must be able to record and detect any tampering attempts.

Allow ability to generate more than one invoice sequence at any given time:

The solution unit must not generate more than one sequence so that all invoices generated by an e-invoice solution unit are linked using 'previous Invoice Hash' value into a single chain.

If a taxpayer generates invoices in separate locations on separate units, each unit should generate a single invoice sequence and the units do not need to coordinate invoice creation for the purpose of ordering the invoices in the sequence. A solution might at times generate invalid e-invoice or associated notes. Such documents should remain, and not be deleted, to preserve the continuity of the e-invoice document order.

Time changes:

The solution must not allow software time changes that will change or modify the timestamp value during e-invoice or credit/debit note issuing.

Export of stamping keys:

The solution must not provide an option to export the cryptographic stamp private stamping key of the solution.

Choosing the right e-invoicing solution

E-invoicing is becoming a necessity for ensuring tax compliances, but have you ever considered the benefits of e-invoicing for your businesses or maybe wondered what it takes for an e-invoicing solution to deliver more than just your compliance needs. The right service provider will ensure that e-invoicing gives you a competitive edge and that you have access to all markets.

Cygnet TaxTech

Let's look at factors to keep in mind as you choose a service provider for your e-invoicing journey:

Local roots and global reach:

More and more countries are adopting e-invoicing but with their own standards and requirements. Choosing the service provider who can keep up with e-invoicing mandate everywhere you do business can play a big role in implementation success.

Navigating the local regulatory requirements:

E-invoicing regulations may require specific requirements the data to be stored within the borders of the country. Choose the service provider that can help in navigating regulatory landscape and comply with local regulations across the countries.

24x7 support:

The need for real-time invoicing makes it business critical service and any interruption can affect business operations. Hence choose to invest in the service provider that invest in superior support.

ERP integration:

A service provider with ERP integration capabilities and understanding of the financial system can help in minimizing the system and format changes.

Open network:

An e-invoicing service provider with an open network, such as Peppol members can facilitate interoperability of invoices between businesses on separate networks. As a result, the businesses choosing open network can connect to the government platforms and other standardized frameworks for secure cross-border exchange of electronic business documents, leaving room for scalability.

e-Invoices processing time:

A service provider with solution capabilities to handle huge volumes of invoices and generate e-invoices within a short duration of time.

Cygnet TaxTech

How to measure savings and benefits

The digitalization decisions for any business is normally rooted in the savings and the benefits that comes along with it. Although e-invoicing is often seen as a compliance burden, regulated e-invoicing in fact brings direct benefits to your business. The calculation of the benefits should also include the impact of increased data quality and accuracy.

Here are some of the examples to get you started:

Increase in the acceptances of invoices or reduction in rejection of incorrect invoices
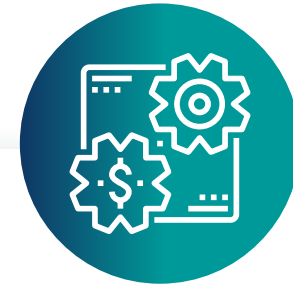
Automation synergies enables tax teams to focus on more value-generating tasks by automating tax return preparation

Minimal exposure to tax and penalties due to single source of truth being used for all tax compliances.

With the right kind of integrated e-invoicing solution, your business can not just reap the business benefits we saw above but also have a competitive edge with public perception by their corporate citizenship being perceived as tax compliant and meeting ECG goals.

Our e-Invoicing specialists will guide you in the process of implementing the right solution

LEARN MORE

Cygnet TaxTech

Cygnet TaxTech is a part of Cygnet Infotech. Cygnet TaxTech offers Indirect Tax Compliance solutions catering to various segments such as large & medium-sized organizations, accounting practitioners, ERP providers, and partners across India, the Middle East, UK & Europe, among others.

Cygnet Infotech is a global technology organization. It offers products, platforms, and services across Product Engineering, RPA, Test Automation, Digital Field Sales Management, Digital Signature, Fintech, apart from Tax Tech and Cygnet IRP.

It has a team of over a thousand people who work on leading technologies, including Hyperautomation, AI & ML, Blockchain, and others.

Cygnet Infotech is also a licensed partner of SAP, Oracle, Microsoft, and others. Cygnet Infotech is a certified Great Place To Work™, offering attractive employee benefits, including a hybrid working model, flexible working hours, leave encashment options, and a robust L&D program.

www.cygnettaxtech.com

Cygnet TaxTech