Digital banking

Emerging tax technologies for banking

Digitalization is affects every facet of banking operations, including tax accounting. Banks hold an immense amount of data about their customers – both retail and commercial – and the effective use of tax technology depends on a bank's ability to organize and use that data.

VAT as a bellwether for change

In 2018 Saudi Arabia introduced a value added tax (VAT) at a rate of 5% as part of its move towards the 2030 vision of reducing dependence on oil as a source of government revenue. Last year, in the midst of the Covid-19 pandemic, the Ministry of Finance announced an increase of the VAT rate to 15% – a measure aimed primarily at countering the adverse economic implications of the pandemic. The tripling of the VAT rate was intended to address the fiscal imbalance caused by a decrease in consumer and commercial spending, the loss of oil and tax revenues, and the cost of healthcare initiatives put into place in response to the pandemic.

As a consumption-based tax levied on most goods and services, VAT has impacted not only the tax function at banks, but is also causing a significant transformation in the way banks are run, cutting across many business operations such as IT, cash management, marketing, and accounting. VAT readiness has required banks to look at all of their business processes. For example, document management – a critical business process for accurate tax accounting – has been significantly improved in the years since VAT was implemented in the Kingdom.

GAZT and e-invoicing

The Saudi Arabian General Authority of Zakat and Tax (GAZT) issued new e-invoicing regulations in December 2020 with an implementation date of 4 December 2021. At this stage we know that the new regulations cover the issue, storage and transmission of e-invoices and related relevant data and are already causing businesses to adopt new tax technologies and processes in order to comply.

The new e-invoicing regulations are integral and complementary to the VAT Implementing Regulations and apply to all Saudi resident taxpayers. The regulations define the terms, requirements, and conditions related to e-invoices. For example, the definition of an electronic invoice is stated to be a tax invoice issued electronically through electronic means, which excludes scans or copies of invoices. The move to e-invoicing is intended to improve compliance, tax revenue collections, the efficiency of the filing process for taxpayers and to combat commercial concealment. Overall, the aim of GAZT is also to improve the Kingdom's alignment with, and adherence to, international standards. GAZT has committed to make further details available to taxpayers before May 2021.

Secure e-invoicing

As banks quickly ramp up their e-invoicing operations to meet GAZT's end-of-2021 deadline, it is crucial that they take action to ensure data completeness, security and privacy are integrated into the management of their VAT systems. The regulations stipulate that web access and encryption are prerequisites for implementing an e-invoicing solution.

Commercial versus retail e-invoicing

The current guidance from GAZT does not distinguish between requirements for B2B and B2C. Since many banks provide services to both commercial and retail customers, the e-invoicing systems they introduce have to fit both models. Unsurprisingly, challenges exist in both.

From a B2B perspective, banks will have to ensure that the e-invoice can be received and processed by its customers as part of their accounts payable process; while B2C customers must be prepared to receive digital invoices – this

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remains a rare form of invoicing for retail clients and will require some adjustment on their part. In particular, e-invoicing faces the challenge of acquiring sufficient data to satisfy the Regulations. Typically, banks have far more retail customers than commercial customers, raising the likelihood that banks will be required to acquire substantial amounts of additional customer data, possibly leading to an overload of inadequate e-invoicing solutions. Further, e-invoicing as envisaged by GAZT may not be desirable for retail customers who are either unable to receive e-invoice data or simply have no desire to receive invoices in this way.

Regardless of the clientele, banks face a daunting task to ensure that their VAT related data is complete and accurate to minimize the likelihood of invoicing errors and adjustments and that, e-invoicing solutions are built to identify the likely formatting and syntax discrepancies that will arise – a notoriously tall order for any kind of technology.

Compounding these challenges is the uncertainty surrounding GAZT's role in the e-invoicing process. It is currently unclear at what point GAZT will access the e-invoicing data. This presents a risk for banks if they produce or receive inaccurate data which is accessed by GAZT before it can be corrected. To mitigate this risk, banks should implement sound processes to curate client data (i.e. acquire and manage) on an end-to-end basis to ensure accuracy at every point where GAZT might come knocking.

At the time of writing, we understand that it is likely that GAZT will develop a proprietary e-invoicing platform which will validate invoice data prior to the final issue of the invoice to the customer.

A steep road ahead

Until now, the use of tax technology in the banking sector in Saudi Arabia has appeared to lag behind more widely-implemented product and accounting technologies. We understand that banks with considerable non-zakat obligations have introduced tax-specific technologies, but broadly the sector has a steep road ahead of it.

On the indirect tax side, some banks have implemented tax solutions. However, the anecdotal evidence suggests that these solutions are inconsistent in terms of effectiveness. Managing VAT in banks requires complex, unique calculations and data is often incomplete or inaccurate. To improve in this space, particularly since going forward GAZT will have access to vastly increased amounts of data, banks should re-think their tax operating models to cater for the greater detailed scrutiny. It is now even more critical that the entire tax environment is viewed holistically and that the necessary skills and experience are acquired to manage both the output of tax information and the inevitable heightened interaction with the tax authorities.

From a governance perspective, it is wise to have a voice at board-level to make sure the needs of the tax team are not ignored when adopting such systems and re-thinking operations. This could prove to be a challenging task since the breadth of taxation is still a relatively new phenomenon in Saudi Arabia.

Finally, modernizing a bank's tax accounting systems does not often mean technology first and people and processes second, but rather the other way around – updating its operating model and processes and training its people, then introducing compatible technology is a proven approach. With more changes coming to the tax environment in the Kingdom, the need for a tax operating model to support the management of tax risk is becoming ever more urgent.

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