



# A Quick Guide for Banks Deploying a VAT Compliance Solution in the GCC



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# 1

# Introduction

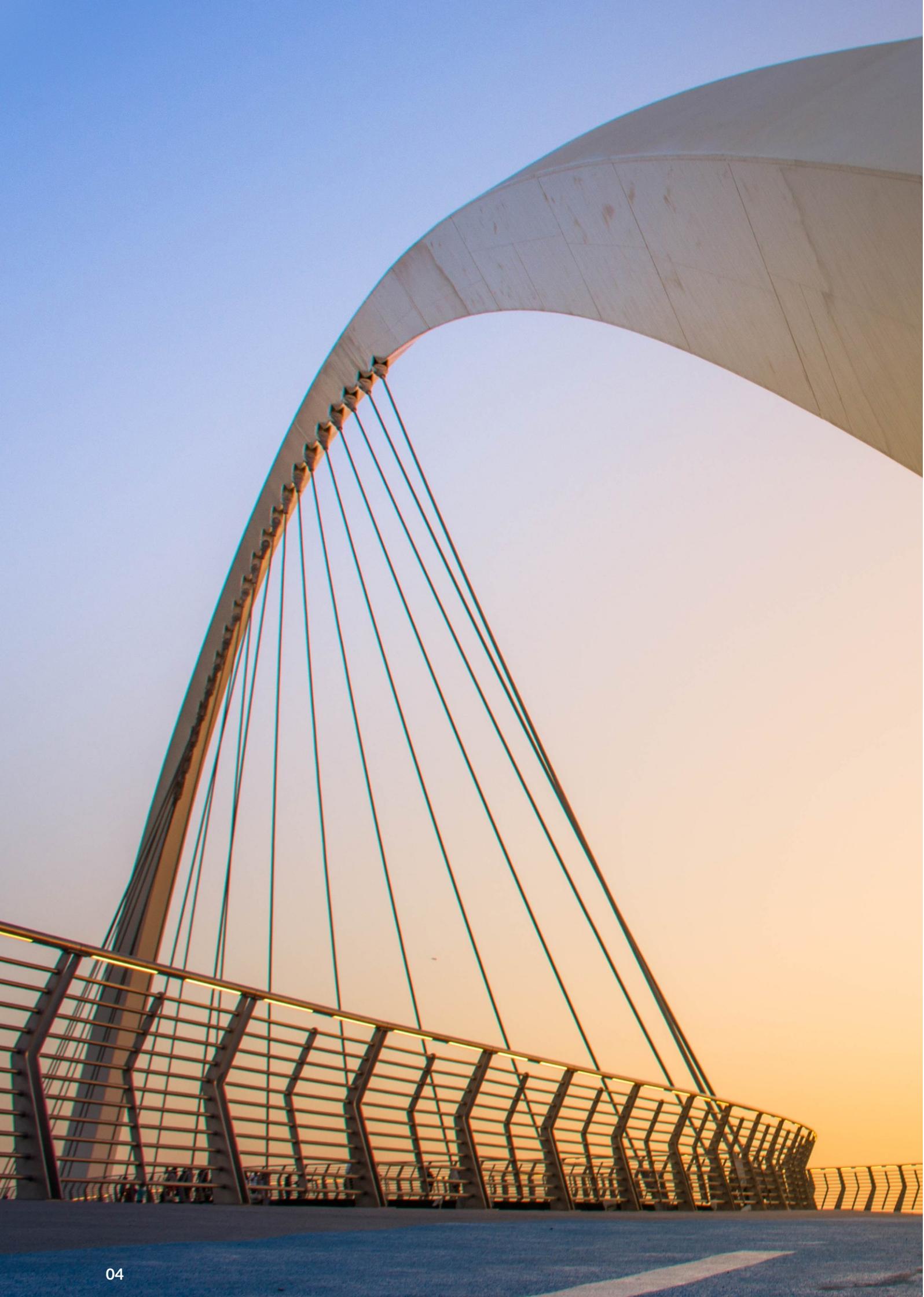
The countries within the Gulf Co-operation Council (GCC) have over the years attempted to diversify their economy away from oil dependence (owing to the oil price volatility) and enhance non-oil revenue (to strengthen economic growth). However, the COVID-19 pandemic dealt a fatal blow to the GCC countries as oil prices collapsed and the economic repercussions of the pandemic further led to fiscal deficits.

Against this backdrop, VAT is an important enabler to ensure seamless revenue generation. In May 2020, The Kingdom of Saudi Arabia announced that it was tripling VAT to 15%, applicable from 1 July 2020, to restore government finances. While the UAE stated it was not considering a similar move, Oman had announced earlier this year that it was likely to introduce VAT in early 2021. This makes Kuwait and Qatar the only two GCC member countries that have not yet announced the implementation of the VAT system.

One thing is certain that with the implementation of VAT being well underway, deploying and maintaining a VAT compliance system is no longer an option but a necessity. Banks and financial institutions are amongst the most VAT complex businesses since there typically are several exemptions that apply to them. This includes complex classifications such as the appropriate VAT treatment assigned to services – taxable or exempt, allocating and attributing costs and managing input tax credit claims such as VAT on reverse charge, and VAT recovery methods for general costs that may not be directly allocated, to name a few.

Banks require a comprehensive VAT technology solution that not only complies with all indirect taxation requirements but also offers scalability to quickly adapt to the constantly evolving changes in regulations. Failure to comply would only lead to severe penalties and reputational risk.

That said, banks and financial institutions often grapple with the deployment decision – should you buy or build a VAT technology solution in house?



# 2a Decoding the Buy or Build Dilemma

Banks may consider developing a VAT solution in-house as a one-off initiative, however, it typically becomes an ongoing initiative as they will need to allocate resources and budget to not just implement the solution but also maintain it. It may seem like a brilliant idea initially but taking up this daunting task internally means liaising with multiple departments as well as collaborating with external vendors. It also raises a critical question – do banks have the bandwidth and expertise to architect a complex solution like VAT?

Working with a reputable partner/ vendor to deploy a tried and tested solution allows banks to focus on their core functions as the vendor’s solution is based on best practices, is comprehensive and guarantees support throughout the product life cycle. From development and quality assurance, to maintenance and data migration, it is all taken care of by the vendor.

Here are some key parameters to aid banks and financial institutions in their decision.

 Key Parameters for Consideration	 Build	 Buy
 <b>Cost visibility</b>	High risk: Typically, such projects have a high cost overshoot	Low risk: Ownership on vendor to deliver the solution at contracted price
 <b>Feature and functionality</b>	High risk: To be built from scratch with complete involvement of business, IT, and external tax consultant (which also comes at a high price to bank; typically, on T&M model)	Low risk: Mature off-the-shelf products offer VAT specific functionalities
 <b>Implementation time lines</b>	High risk: Ownership on internal IT team, which is already engaged in multiple projects; may have a lead time of 8-12 given the complexity of the VAT requirements from FTA	Low risk: As per pre-agreed timelines with very low risk of delay; varies from 3-5 months based on bank’s readiness
 <b>Operations</b>	High dependence on IT for day to day operations	Automated workflows as per solution configurations
 <b>Future readiness</b>	High dependence on IT as there is a need to manage a dedicated team (6-8 people) for VAT solution	Given as a value add as part of active support agreement
 <b>Quality</b>	High risk and cost associated as all the testing cycles need to be done from beginning	High quality and lesser time as product will be a tested solution
 <b>Scalability &amp; performance</b>	Dependence on IT to manage deployment can lead to high cost impact on infrastructure	Uses latest technical stack and best of breed components
 <b>Compliance</b>	Ownership on bank to be compliant	Ownership on vendor to ensure compliance with regulations from FTA

# 2b Understanding the Differences Between a Centralized and a Decentralized Implementation Approach

After banks have assessed the build versus buy approach, and narrowed in on the buy option, the next step is to decide on whether to opt for a centralized or decentralized implementation approach.

A centralized approach entails a single vendor solution that integrates with the bank's existing technology landscape, whereas a decentralized approach has dependency upon multiple vendors.

 <b>Parameters for Consideration</b>	 <b>Decentralized Approach</b>	 <b>Centralized Approach</b>
 <b>Effort duplication</b>	It involves a high duplication of effort as similar rules need to be built in all core systems in their specific context	In this case a common rule set applies for all transactions coming from multiple source system
 <b>Dependence on external vendor/ SI</b>	Dependence on multiple vendors or SIs to make changes to each core system	A single vendor solution covers all aspects of VAT regulations – input tax, output tax and reconciliations
 <b>Performance impact</b>	High chance to impact/ degrade the performance of exiting core systems	A centralized system is purpose built and capable of handling large volumes of transactions
 <b>Cost of regulatory change</b>	Has high cost impact as modifications will be required across all core systems	A highly parameterized and configurable solution – single point of change provided for FREE as part of active support agreement
 <b>Compliance to deadlines by FTA on amendments</b>	High risk due to multiple vendor dependencies	Low risk as ownership is on vendor to ensure timely delivery
 <b>Product maintainability, operations, and future readiness</b>	High risk due to multiple vendor dependencies	Low risk as ownership is on vendor
 <b>Strategic or tactical decisioning</b>	Tactical decision with each amendment requiring detailed attention of key stakeholders	Strategic long-term decision as VAT regime is here to stay
 <b>Risk of non-compliance</b>	High risk of cost of penalty due to non-compliance on bank themselves	Low risk for bank with high degree of ownership of compliance on vendor

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# Essentials of a Robust VAT System

Given that the GCC economy is largely trade driven, banks require a comprehensive VAT solution that is designed to provide end-to-end VAT compliance and takes care of VAT rules regarding imports/ exports and free trade zones. The product must entail all the aspects of Indirect Taxes with respect to Output Tax, Input Tax, and Regulatory Reporting.

Some of the functionalities to look for are highlighted below.

## The Output Tax Module must include:

- Multi-country and multi-entity management
- Pre-configured flexible and robust tax rule book management
- Tax exemption framework
- Customer attribute management
- Tax registration management
- Multi-currency collections and taxation
- End-to-end tax invoicing from data generation, PDF creations, password protection, and email integrations
- Walk-in invoice management
- Accounting and refunds
- Cash based and accrual-based reporting
- Tax bad debt processing and statements
- Voluntary disclosure

## The Input Tax module must include:

- Reverse charge computation and reporting
- Self-invoicing
- Input tax credits
- Tax expenses
- Input service distributions

- Input tax attributability
- Fenced free zone treatments
- Annual wash up calculations
- Input tax apportionment and allocation methods
- Accounting integrations
- Multi entity taxations

## The Regulatory Reporting module must include:

- Individual and group tax reporting
- Reconciliation and matching credits
- Setting of input credits and liability computations
- Regulatory returns scheduling
- Integration with regulatory bodies
- Audit reports to regulators (FTA, NBR, GAZT.)
- Capital asset register maintenance



# 4 Key Aspects to Consider When Embarking on the Implementation Project

Typically, during the implementation phase an assessment of the existing IT systems' capabilities is done to then be able to integrate the bank's existing technologies with the productized solution.

Some of the key parameters to consider to fail-proof the implementation project includes:



## Ensuring data correctness

One of the key parameters that determines the success of an implementation is the quality of data. A robust solution has application controls in place to ensure data correctness and completeness.



## Tackling complexities of multiple satellite systems

The next step would include tackling complexities involving multiple satellite systems within the bank. Establishing system capabilities and ensuring data validations are dependent on individual systems, which is why system wise controls are implemented in the VAT solution to address these challenges.



## Considering a flexible hybrid model of implementation

Depending on the nature of the transactions, banks may need to compute tax online, in some cases inflate income and some by offline recovery. In such a scenario, banks can opt for a flexible hybrid model of implementation. The product must support a hybrid model of implementation by integrating with applications in all modes.



## Addressing reconciliation challenges

Another typical challenge faced during implementation is the reconciliation challenge. Along with reporting, banks and financial institutions have problems in reconciling their General Ledger (GL) books with the VAT liability. The VAT solution must provide reconciliation facility for all VAT GL books with transaction drill down functionality to track down the differences.



## Setting up data verification mechanisms

For accurate reporting of data, the VAT solution must provide a wide range of data verification mechanisms such as MIS reports, transaction verification screens, post processing update options, and invoice confirmation facilities.



## Accommodating accounting corrections

Another important aspect is accounting correction. In case of wrong tax resolutions and accounting in source systems, the VAT product must provide a facility to make corrections as refunds and shortfalls to the customers.



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

Once the implementation project sees the light of day and banks begin operations, it is then imperative to track the results of the VAT solution.

Here are the expected benefits of a scalable and platform agnostic VAT solution:

## Operation Benefits:

- Get a single source of truth for VAT compliance and audit
- Benefit from a future proof solution packed with functionalities of indirect taxation
- Capitalize on creating a sample test case database
- Ensure rapid go-live with a parameterized solution

## Cost Benefits:

- Benefit from a solution that covers future VAT regulatory changes
- Higher recoverability due to centralized view of bank's input and output position
- Capitalize on shorter project timelines with a ready-to-deploy solution
- Ensure minimal changes to existing product processors

## Technical Benefits:

- High performance
- Infinite scalability Industry standard
- Industry standard integration capabilities
- Analytical capability



**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*



## Strategic Benefits:

- Single solution for multiple tax regimes (GCC VAT, Digital VAT for UK, GST for India operations etc.)
- Offers complete view at group level (multi entity) to understand tax liabilities
- Can be used across bank customer/account without any limitations

# 6

# Success Story

## UAE's largest private sector bank became VAT compliant with SunTec's out-of-the-box VAT compliance solution

The client is the oldest bank in the UAE with award-winning financial solutions and services. They have a significant presence in 11 countries outside the UAE with 26 overseas branches and offices across Europe, USA, Asia, and Africa. In line with one of the biggest indirect tax reforms in GCC, the bank wanted to facilitate computing and invoicing of debit tax and credit tax within the VAT compliance.

Their major challenge was implementing the indirect taxation logic across 25+ applications in the banks' existing technology landscape in accordance with the set deadline. Further, they had to ensure re-alignment of business practices and system changes to optimize application usage and achieve continuity between source system and the tax engine. Integrating all key systems with a single over-the-top tax engine and making amendments in the extraction logic was critical. They wanted to ensure regulatory changes in the future would be taken care of as well to ensure operational efficiency and compliance.

SunTec successfully implemented the GCC VAT Solution with a spectrum of pre-built, feature-rich functional modules that cover Credit Tax and Debit Tax compliance.

SunTec's VAT Solution enabled the bank to:

- Reduce cost considerably as VAT compliance was ensured across 9 lines of businesses and across 25+ different applications
- Accurately handle tax management for about 1,300,000 transactions per month
- Issue consolidated tax statements for merchants and individuals alike based on data extracted from various source systems
- Ensure business continuity during VAT configuration between all key systems, including core banking and card system

## 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 130 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)