



Sociology & Cultural Research Review (SCRR)
Available Online: <https://scrrjournal.com>
Print ISSN: [3007-3103](#) Online ISSN: [3007-3111](#)
Platform & Workflow by: [Open Journal Systems](#)



Lessons from Saudi Arabia ZATCA Electronic Invoicing Rollout for United States Tax Compliance Modernization

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Abstract

This article explores the phased electronic invoicing regime developed by the Zakat, Tax and Customs Authority and considers what elements of this regime can be adopted by the federal government for tax compliance modernization in the United States without the adoption of a national value added tax. Saudi Arabia was implementing the requirement for taxpayers to generate and store tax invoices electronically from December 2021 and to integrate them with Fatoora from 2023 and 2024, respectively, sending taxpayers by waves of revenue, arriving near the voluntary registration threshold in the years of 2026 and 2027, with simplified consumer invoices being cleared and sent within a day. The United States already has a high rate of payments and filings made electronically, around 85 percent, and a significant number of returns may be underreported, even when they are filed on time, but core master files and a moribund modernization-priority portfolio constrain the scope of new data feeds that can be safely processed. Based on the deterrence theory, the use of third party information evidence, the official records of both administrations, the article concludes that sequencing, published data standards, advance notice and separation of file validation from tax assessment leap across fiscal systems while a national clearance veto on ordinary commercial invoices does not. This comparison is provided as a design exercise in information reporting and transactional pilots, as opposed to a suggestion to enforce Saudi legal form.

Keywords: *Saudi Arabia, ZATCA, Electronic Invoicing, United States, Tax Compliance, Modernization*

Introduction

Tax administrators who historically have looked at returns once a year are now trying to get a view of the underlying supply while it is still “hot,” and Saudi Arabia has done this with a clarity of legal staging that is useful to other tax administrators who don't share the same tax base with their kingdom. From 4 December 2021, the Zakat, Tax and Customs Authority (Zatca) ordered the resident value added tax (VAT) register holders to cease issuing handwritten and unstructured tax invoices and introduced the phase of integration with the Fatoora platform from 1 January 2023, in a staggered manner based on the volume of taxable revenue (Zakat, Tax and Customs Authority, 2021). Business to business/ business to government supplies use standard invoices that are cleared before being legally issued;

simplified invoice for most consumer supplies is stamped in the taxpayer system and reported within 24 hours; a structured payload, a unique identifier, a cryptographic stamp and a hash are included in each invoice, linking it back to the previous invoice. The regime, therefore, is neither a paper form scan nor a voluntary exchange network but is a transaction control system on an ongoing basis, with the strength of the control depending on the type of supply.

A consideration of the Saudi rollout can still hold a mirror up to the federal debate, because it's a different statute and different landscape of authority that presents the United States with a similar visibility problem. The Internal Revenue Service estimated a gross tax gap of \$696 billion for 2022, of which failure to file returns accounted for \$539 billion and failure to keep voluntary compliance at the current rate (~85 percent) of returns means failure to pay an admitted tax liability is the dominant failure (Internal Revenue Service, 2024). Where a third party reports information to the authority, the logic used for information reporting and withholding has a very high level of compliance, and the question of the open design is how far the logic can be pushed further, towards ordinary commercial invoices that today do not come to the authority's attention until the recipient returns them (Lederman 2010). By September of 2026, the United States was still without a federal law that mandates business to business electronic invoicing, while clearance and continuous reporting had become commonplace in Europe, Latin America and the Gulf (Wisetrend, 2026).

This article isn't a blueprint for how to implement the Fatoora sequence in Washington; it's an administrative lesson. The Organisation for Economic Co operation and Development (OECD) has stated that electronic invoicing and continuous transaction reporting are concrete measures that will increase the proximity of compliance closer to the taxpayer natural systems, and, as already noted earlier, the different national standards will bring costs for companies engaged in cross-border trading (OECD, 2022). A published data object, as well as a period that is long enough for software markets to react to and a less stringent standard for high volume sales by consumers, can be the basis for federal information reporting and selected transactional pilots, while a blocking role for the Internal Revenue Service in ordinary wholesale exchange would assume a credit mechanism, one tax authority for every consumption, and a receiving platform that the current state of the tax modernization record does not justify (U.S. Government Accountability Office, 2025). The following pages describe the problem and the objectives and questions, describe the document method, and discuss rollout design, federal lessons, and limits of transfer.

Literature Review

When the technology of administration has changed as has happened here, the economics of compliance must begin with the proposition that concealment is a choice when you have uncertainty and that proposition is the right one to begin with. Allingham and Sandmo (1972) suggested that the taxpayer would consider the private saving that would result from underreporting income, yet also the expected penalty if he or she were caught which would depend on the size of the underreported income, together with the risk-taking taste of the taxpayer. The main part of it has not been rejected in later surveys, but it has been broadened to encompass norms, trust in the authority, the perceived fairness of the fiscal give-and-take,

and just the capacity of the taxpayer to comply with complicated rules (Alm, 2019). This has an implication for the design of the invoice: a control that doesn't increase the probability of the behavior is discovered or the filing cost is made more difficult won't shift behavior; a control that changes the information environment the choice is made in will shift behavior.

Empirical research on third party reporting has made it specific enough to inform legislation, as the research goes beyond just saying that audits matter, and provides insight into where the returns are already limited by the return of another person's file. In a comprehensive review of the enforcement literature, Slemrod (2019) found that differences in compliance rates across types of income are more closely related to the information reporting and remittance features of each income category than to the audit rate. A Danish audit experiment revealed that the incidence of evasion was virtually zero in the income reported by a third party and high in the self-reported income, suggesting that many taxpayers were not as reluctant as unable to escape if the mismatch were apparent before the audit process engaged an auditor (Kleven et al., 2011). Lederman (2010) took the lesson from the American law, and said that when the third party has the info, when the matching gain is large relative to the burden, and when it is a material part of the gap, rather than whenever a form can be imagined, then new information reporting is warranted.

Value added tax scholarship provides the closest approximation to invoice level controls as the credit chain has its own counter-party who has a motive to seek a record. Keen and Smith (2006) illustrated how missing trader/carousel fraud arises from the lack of a link between the charging party and the credit claiming party, and claimed that the amount of this fraud that can be prevented is not simply the statutory rate, but is instead determined by the administrative design of the system. Pomeranz (2015) gave experimental evidence from Chile, showing that paper trails are effective in deterring evasion on transactions between firms, but their deterrent effect is weaker when there are no paper trails. Bird and Gendron (2007) had already pointed out that administration of refunds, the integrity of the invoices, and audit capacity are essential for maintaining the self-enforcing nature of the value added tax or the tax will generate the very evasion it was created to prevent.

Electronic invoicing adds to the paper trail, making it structured, on time and hard to alter once issued, and best estimates of cause are provided by staggered mandates, not by the vendors' claims. Bellon and colleagues (2019) applied the administrative data available in Peru and the implementation of value added tax electronic invoicing to estimate that there was an increase in the reported value of sales, purchases, and value added of over 5 percent in the first year, and that the increase was greater for small companies and in sectors with lower levels of prior compliance. However, a follow-up study revealed that, although a mandate can light up a market, it can also divide it: Firms that were part of a trading relationship with partners introduced into the mandate reported increased sales and increased VAT payments, with some trading relationships becoming weaker (Bellon et al., 2022). In a similar finding, Naritomi (2019) derived from a different instrument, in the city of Sao Paulo, that rewards and verification for consumers who demanded receipts led to firm reported sales by at least 21

percent over four years and to higher net revenue, demonstrating an incentive to discipline an opposing party at the point of sale even when the two parties may collude.

These experiments have been collected together into an international administrative vocabulary of ongoing transaction control, which allows for the comparison of a Saudi and American experience without falsely equating the laws. Tax Administration 3.0 is defined by OECD as a transition towards shifting calculation and verification closer to the taxpayer's environment, where compliance is closer to the event, with less effort for the tax administration to reconstruct the past (OECD, 2020). A subsequent Forum on Tax Administration document looked at the concept of "electronic invoicing" as a set of practices, ranging from the transmission of invoice data on a periodic basis, through continuous reporting, to clearance models where the invoice is not legally issued until validated by the platform (OECD, 2022). According to the 2025 Comparative tax administration review, e-invoicing and fiscal devices represent identified tools in advanced and emerging tax systems, thus supporting the Saudi decision to use these tools is part of a larger trend and not in isolation from it (OECD, 2025).

A legal obligation to follow foreign calendars is being imposed on American firms by European legislation, and it is not inconsequential that they follow foreign calendars even if Congress does not adopt one. In December 2022, the European Commission proposed a VAT package for the digital age based on electronic invoicing and real time digital reporting for cross border supplies, with an official estimate of a significant amount of fraud being reduced by such reporting and the compliance costs of traders being reduced over a decade (European Commission, 2022). The Council text with rules for the digital age was later approved in Parliament, with a commitment to electronic invoicing as the standard and digital reporting of cross-border transactions by 2030, but leaving room for formats to be adopted at national level (European Parliament, 2025). This is very instructive of a clearance regime, since the Union model is for convergence reporting, but not for all domestic invoices to be blocked through a single platform, which is typically the acceptable position that a federal income tax administration can achieve.

American commentary has been more circumspect, though not only because of cultural differences; the federal legislation does not confer legal weight on the invoice that a value added tax credit does. There is no federal VAT with a credit integrity that relies on the invoice; sales taxes are state tax with state-sourcing rules and exemption certificates; only approximately 1/5 of large U.S. businesses sent structured electronic invoices in an industry assessment in 2025; and more than 2/3 of large U.S. businesses still use portable document files (Avalara, 2025). In fact, many multinationals are already facing an international compliance problem, as a survey of finance leaders at very large American companies revealed that they are more likely to rely on spreadsheets and scanning than their European counterparts and less confident of meeting foreign mandates, as well as higher numbers of fines and audit findings (Basware, 2026). The Service has placed a capacity constraint on public administration with regard to the business systems modernization that Congress appropriated approximately 4.8 billion dollars for through the Inflation Reduction Act of 2022, but then the March 2025 report from the Government Accountability Office (GAO) indicates that the

Service temporarily halted business systems modernization efforts and later released a draft framework of nine initiatives instead of twenty three programs (U.S. Government Accountability Office, 2025).

Problem Statement

In the United States, federal receipts are still compiled primarily from returns and information documents that are received following the economic event, typically several months after the supply is provided, the wage is paid, or the contract is paid. The flow of money and forms is no longer the main problem, as those returns are well underway to be filed electronically and the payment of the tax is well underway to be made electronically. One of the biggest problems is that large collections of business receipts, related party transactions, and pass through results are only discoverable by the taxpayer until an examination is conducted which reconstructs them, so the underreporting is the primary driver of the difference between actual liability and timely voluntary payment. The point is made by partnership and other complex returns: Closing and opening balance sheets differ and economic activity and reported allocations differ, and it's hard to see these differences without the transactional record, which the annual form is not meant to capture.

Saudi Arabia had a similar visibility issue in a young VAT system, where the credit chain relies on the invoice, and therefore the legal obligation to provide an invoice electronically, followed by a legal obligation for the largest taxpayers and then the smaller taxpayers to connect a issuing system with a central system, was the response. At the federal level, no such legislation has taken place, and the commercial invoice continues to be the private document, the unstructured file continues to be the business record, and no federal system validates the business record before they are relied upon. State sales tax administrations have their own filing portals and in some States, their own data feeds, but those do not total up to a national control, and do not benefit the federal income tax base.

The issue discussed herein is therefore a design issue and not the collapse of compliance in America. There is high levels of voluntary compliance, the collections are sizeable and the Service already gets billions of information returns. The problem is that the funds for modernization and enforcement continue to be largely based on returns, notices and specific information documents, whilst peer administrations are creating controls at the invoice. As a result, the domestic discussion on the Saudi case is dominated on one side by the view of copying a foreign model for clearances, and on the other by the assertion that there is no value added tax in the United States and the data on the invoices is irrelevant. No pole does any identification of elements that travel and none does any identification of elements that depend on institutions Washington doesn't have, and the identification of those elements is the responsibility of the sections that follow.

Objectives

1. To examine Saudi Arabia's e-invoicing system, including implementation phases, taxpayer thresholds, invoice clearance and reporting rules, and document integrity requirements.

2. To identify lessons for modernizing U.S. federal tax compliance through phased implementation, advance notice, data standards, and separation of invoice validation from tax assessment.
3. To assess barriers to adopting Saudi-style controls in the United States, including federalism, legacy systems, privacy, taxpayer rights, and small-business costs.

Research Questions

1. How did Saudi Arabia implement e-invoicing, and what legal and technical requirements determine invoice validity?
2. Which features of Saudi Arabia's system could help modernize U.S. federal tax compliance and reduce underreporting without a national VAT?
3. How would federalism, legacy systems, privacy, taxpayer rights, and small-business costs limit the adoption of Saudi-style invoice controls in the United States?

Methodology

The study is a qualitative comparative policy analysis that reconstructs the Saudi regime from the published electronic invoicing regulation and from contemporaneous professional accounts of later wave announcements, and that sets the reconstruction against official United States sources on the tax gap, fiscal year operations, information technology modernization, and electronic payment. Peer reviewed and institutional research on deterrence, third party information, value added tax paper trails, and electronic invoicing supplies the analytical frame. The comparison is functional rather than doctrinal, because the question is not whether the Internal Revenue Code resembles the Saudi value added tax statute, but whether a control that validates transactional data near the time of the supply can address a compliance weakness that in the United States appears as underreporting on income and employment tax returns.

Inference is bounded in three ways so that the lessons remain usable rather than over claimed. Official Saudi yield statistics comparable to published difference in differences estimates from other countries are not treated as established, because they are not available in that form, and vendor descriptions of implementation effort are used as evidence of burden rather than as a substitute for an audit study. State sales tax administrations are treated as essential context for the federalism constraint and are not modelled state by state, because the lesson sought here is about allocation of authority rather than about any single state code. No primary survey or interview data were collected, which fits a lesson drawing exercise whose value lies in accurate institutional description and disciplined transfer rather than in a new causal estimate. Where secondary accounts differ on a threshold or a deadline, the account that cites a dated authority announcement is preferred, and figures for the United States are taken from the Service, the Government Accountability Office, or the Treasury Inspector General for Tax Administration rather than from commentary.

Rollout Design

Saudi electronic invoicing is a two-phase legal regime rather than a single go live date, and the distinction between the phases is the first fact a foreign reader must hold. The generation phase took effect on 4 December 2021 for resident taxpayers subject to value added tax, excluding non-residents without a permanent establishment, and from that date handwritten invoices and invoices produced in ordinary word processors or spreadsheets ceased to satisfy the invoicing rules (Zakat, Tax and Customs Authority, 2021). Taxpayers had to issue and store invoices through an electronic solution that carried the mandatory fields, including a quick response code on simplified invoices, which changed the artefact without yet requiring every issuing system to speak to the authority at the moment of issue. That limited scope was a deliberate on ramp, because it forced firms to leave paper without demanding, on the first day, a national integration project that many software estates could not have completed.

The integration phase opened on 1 January 2023 and has been applied in waves ordered by revenue subject to value added tax, with early waves capturing the largest taxpayers and later waves stepping down through successively smaller bands. By late 2025 and 2026 the thresholds had entered the range of smaller firms, and the authority announced on 26 September 2025 that taxpayers whose relevant revenue exceeded 375,000 riyals in 2022, 2023, or 2024 had to integrate by 30 June 2026, then announced on 24 July 2026 that taxpayers above 187,500 riyals in any of 2022 through 2025 had to integrate by 1 February 2027, a level aligned with the voluntary registration threshold (Zakat, Tax and Customs Authority, 2021). A single year above the line is enough to enter the wave, a later fall in revenue does not release the taxpayer, and the authority notifies targeted taxpayers directly with at least six months before the integration date. Sequencing by measured capacity, rather than by sector slogan, is the administrative signature of the rollout, and it stands in useful contrast to mandates that announce one date for every firm and then extend it when systems fail.

Table 1 Fatoora phases, coverage, and control model

Element	Generation phase	Integration phase
Legal start	4 December 2021	1 January 2023, then by wave
Who is covered	Resident value added tax registrants	Notified taxpayers above a published revenue line
Core duty	Electronic issue and electronic storage	Onboarding and live link to the Fatoora platform
Invoice form	Mandatory fields and a quick response code	Structured markup, or a readable file with that markup embedded
Standard invoices	No platform clearance yet	Clearance before legal issue to the buyer
Simplified invoices	Electronic generation and storage	Stamp in the taxpayer system and report within 24 hours
Notice	A single national start	Direct notice at least six months before the wave date
Integrity add ons	Basic electronic record	Unique identifier, cryptographic stamp, and hash chain

The integration duty has both a technical and legal component, with the technical component being the component which makes a filing rule into a control. All e-generation solution units need to be onboarded via Fatoora, receive the cryptographic certificates, and generate the

invoice as structured extensible markup language (XML) with the Universal Business Language (UBL) or just as a readable archive file with the UBL markup embedded, with the latter being submitted to the platform. The authority is within the chain of issuance only to the extent that the credit chain is vulnerable, as a standard tax invoice must be cleared before it is issued to the buyer and a simplified tax invoice is stamped in the taxpayer system and reported within 24 hours. Every invoice has a universal identifier, a cryptographic stamp that is bound to a certificate issued when the invoice is onboarded, a hash that connects it with the previous invoice, and a coded QR symbol with the appropriate tags, which is a non-structured portable document file that is not an integration class. The Organisation for Economic Cooperation and Development considers clearance and fast reporting as administrative electronic invoicing but considers the availability of the system, rejection processing and business continuity more acutely as issues with clearance (OECD, 2022).

This hybrid is one of the most readily translatable judgments of control that are allowed in the regime, as it indicates that the control that is necessary in the near real time ought not to be the same for every transaction. While both the split of Clearance for protecting the rights of the buyer who might rely on the invoice for a credit, and the split of Reporting for protecting the authority interest in consumer supplies without preventing the checkout are also respected in Europe, in the context of digital reporting proposals (European Parliament, 2025). Penalties and transitional relief have been written into the story of how it is implemented – not as an add-on. Professional reports about the 2026 waves feature clean exempt windows that go with transitional deadlines for companies that do interact with the platform in good faith. The groups that entered later have a different ‘readiness profile’ to those that have integrated as the smaller ones are far more likely to rely on a vendor solution than an in-house team, meaning that certified software quality and price are at the heart of the equal treatment.

These two institutional characteristics should also receive the same consideration as the calendar: (1) there is a scope test to be known and (2) there is a payload specified. The scope is based on revenue in named previous years for which it is subject to value added tax, and such information is available to the authority, so that a selection should not depend on a new survey and a firm should not be eliminated from a wave by a drop in revenue over a 1-year period after they are tested. The data standard is not left to market convention, which helps alleviate the bilateral format debates that have hindered voluntary electronic invoicing in the United States, where structured exchange is not commonplace and portable document files are the norm (Avalara, 2025). Specificity also provides a “private benefit” to firms that engage in cross-border trading since a payload that already meets a published integrity model is more likely to meet the requirements of other clearance jurisdictions. There is not yet a scholarly yield estimation on the public record down to the level of the Peruvian studies, and the integration should not be seen as a sign that all firms integrated smoothly, but rather as a representation of a complete policy sequence of generation before integration, large taxpayers before small, clearance before the credit is at risk, and reporting when speed of consumer sale outweighs. (Bellon et al., 2019).

Federal Lessons

The first lesson is that visibility should be expanded where the gap is, not where it's easiest to create the visibility even if the service enhancements are desirable in and of themselves, a program designed to accelerate a refund or enhance a telephone line will not, by itself, address the dominant component, as long as the total tax gap for tax year 2022 is \$696 billion. A program that seeks to increase a telephone line or improve a refund will not, by itself, address the dominant component, even if those service gains are desirable in and of themselves (Internal Revenue Service, 2024). Saudi policy began with the invoice as the invoice is the point at which value added tax turns; and an American comparison should begin at the records that explain the high compliance rates where they exist and at the records that don't explain the low rates where compliance is lower. Information returns for wages and many financial payments are domestic evidence that third party data can influence behaviour and the design challenge is to apply the same influence to business receipts, without making a claim that all sales could be matched as reliably as a wage (Kleven et al., 2011).

The second lesson is the power and the limit of the paper trail, which travels only if the designer separates the trail from the credit that often accompanies it. Experimental evidence from Chile showed that the threat of closer monitoring bites less where a trail already links two firms, because the trail has already done preventive work, and that the effect runs up the chain when the buyer needs a valid document (Pomeranz, 2015). Electronic invoicing in Peru raised reported value added by more than 5 percent in the first year and concentrated the gain where prior compliance was weaker, which is the pattern a gap driven administration should care about (Bellon et al., 2019). A federal income tax cannot reproduce the buyer credit that makes a Chilean or Saudi buyer insist on a valid invoice, yet it can still use structured invoice data as third party information for business income, for cost of goods sold, and for the matching of large partnership and corporate transactions. The lesson is to import the trail and not to import the credit, and where no opposing party has a tax reason to demand the document the mandate must supply the legal reason or the trail will not form (Lederman, 2010).

Table 2 Lessons from the rollout for federal modernization

Lesson	Saudi feature	Federal use that travels	Federal use that does not travel
Build visibility at the gap	The invoice is the compliance object	Richer reporting of business receipts	A checkout block unrelated to the gap
Keep the paper trail	Buyer reliance on a valid invoice	Matching of large firm to firm supplies	Importing a credit the income tax lacks
Sequence by capacity	Revenue waves and six month notice	Pilots and filing season notice	One date for every firm and every sale
Separate validity from assessment	Clearance is not the annual assessment	Rejection as a compliance event	An automated deficiency from a schema fail
Publish the data object	A specified markup and stamp	A core invoice usable at home and abroad	A format indifferent to state tax codes
Expect network edges	Later waves shrink the outside group	A pre-committed boundary and measurement	Assuming partial mandates have no avoidance

Lesson	Saudi feature	Federal use that travels	Federal use that does not travel
Do not stop at channel reform	Generation was only the on ramp	Treat electronic payment as already largely done	Counting electronic filing as transactional control

The third lesson is sequencing by capacity with dated notice, which is the element most directly available to a legislature that is not ready for a general mandate. Waves, revenue tests, and a minimum notice period of six months allowed software markets and internal controls to mature before smaller firms were called, and they gave the authority a training window as well as a build window (Zakat, Tax and Customs Authority, 2021). The United States has a cautionary parallel in its own modernization record, because appropriations for business systems modernization did not prevent a pause in 2025 and a redrawing of the program portfolio from twenty three programs toward a draft set of nine initiatives (U.S. Government Accountability Office, 2025). A legal duty that arrives before the receiving platform, the error code regime, and the exception process is an invitation to backlog, so any American move toward richer transactional reporting should copy the wave logic even if it never copies clearance, starting with taxpayers and transaction classes where matching value is highest and systems are ready.

The fourth lesson will be on the separation of document validity and tax assessment, the political and legal safeguard that makes a feed politically and legally survivable. The Saudi clearance model also determines the issue of the invoice, and the rules of the platform do not, by themselves, determine the liability of the supplier over a year as the OECD has emphasised when it considers continuous reporting to be a support to administration, rather than a substitute for assessment, appeal and refund (OECD, 2022). That separation should be manifested in any United States design, particularly limiting the data file to a compliance event if rejected and not being a compliance event if it is the subject of an automated rejection, as well as not collapsing existing rights to notice and to contest adjustments into an automated rejection. In this way a platform that ignored those rights would be at risk of failing tests which a value added tax clearance system, set in a different constitutional context, would not be at risk of failing in the same way and which would also jeopardise the channel of compliance that compliance research considers a complement to deterrence (Alm, 2019).

The fifth lesson is that standards are infrastructure, not necessarily followed by a mandate and that a published object can reduce private cost even if it's not fully covered. In the U.S., voluntary networks have been looking for interoperability through open standards and have not necessarily been required to do so; Saudi experience shows that voluntary exchange will not be enough to create coverage that is needed to close the tax gap, and mandating without publishing a standard means imposing cost without comparability (Avalara, 2025). Even if this federal contribution were not a clearance, but rather a stable subset of fields on the invoice, such as supplier, customer, date, taxable amount, and a unique identifier, with extensibility for state exemption codes, based on a language used by businesses, it could still be the game-breaker. The problem that large American companies face to scale compliance processes to foreign calendars is a competitiveness argument as well as a fiscal argument, as the private cost of dual maintenance is already paid elsewhere in the world (Basware, 2026). The European digital age package points are also in the same direction when proposing convergence in

reporting for traders, so they don't have to maintain multiple feeds for every border they travel across (European Commission, 2022).

The sixth lesson is network management, and from the evidence, it's clear that spill compliance must be extended to trading partners, and that it can reduce the relationship value in the system if only one is in the system. Companies that had partners entered in the Peruvian mandate had higher sales and paid more tax, but some of the partner's links weakened, as can be expected but not surprising in a partial regime (Bellon et al., 2022). Such a federal pilot would draw the line, and companies on the edge could split projects or move their counterparties if the line isn't specified in advance, the measurement plan isn't defined, or the definition of the expanding path isn't defined. A reduction of thresholds so they are aligned with the registration floor is one method for reducing the size of the outside group and the United States, which does not have a fixed registration floor for a federal consumption tax, would require a different outside group indicator like gross receipts, information return volume, or asset size. Consumer side instruments from other countries indicate that the other side doesn't necessarily need to be a business buyer, but also that they need to be designed and not taken for granted (Naritomi, 2019).

The seventh lesson is that e-payment and e-filing are no substitutes for transactional control, even if e-payment and e-filing are a success. This contradicts the notion that the Service is still a paper payments agency, and reveals the maximum that channel reform can achieve: 88 percent of tax transactions in recent processing years were electronic, and 97 percent of business payments were electronic, according to the Treasury Inspector General for Tax Administration (2026). An electronic debit to a Cheque is not designed to tell the authority whether the sale which was the source of the payment was entirely reported, it is designed to address the previous question. American modernization based on electronic filing rates and electronic payment rates will claim victory when the Saudi reform treated as being settled by the generation phase will fail to address the underreporting issue.

Transfer Limits

It is most importantly constitutional and fiscal, not technical, and it precludes any reading of Fatoora as a statute waiting to be enacted. Saudi electronic invoicing has a national VAT which is managed by one authority while in the United States, federal VAT (consumption tax) is not imposed and there are state and local sales and use tax rates, with exemption certificates, sourcing rules, and marketplace rules already varying. A federal clearance system for sales-tax statements would clash with that allocation of power and even a federally provided, voluntary state standard for sales-tax statements would demand cooperation of the sort the federation has rarely been able to afford in tax matters. The honest lesson is the inverse of this, however: that while the clearance of the credit invoice is a bad model for Washington, the structured reporting of the income and employment tax information regimes is a better model and the states do not need to give up sales tax administration for it (Bird & Gendron, 2007).

The second constraint is legacy systems, which will hold even a small reporting pilot hostage if there's nowhere it can set down. The Government Accountability Office has consistently

associated performance by Service to the age and entanglement of its core files, and the 2025 modernization review showed both that the Service was performing on the then current program list, and that it had an underspend on the plan, then followed a pause and a tighter draft framework (U.S. Government Accountability Office, 2025). Technology modernization was still the "lesser" grade compared to taxpayer service in independent assessment in 2026, with the Individual Master File and the Business Master File being identified as key challenges (National Taxpayers Union Foundation, 2026). A Fatoora style intake would assume the authority to receive, validate and store a flow of invoice messages without impacting filing season, while the Service already processes hundreds of millions of returns and billions of information returns, and a high frequency feed with a new interface and retirement path for legacy files will be a rehash of past patterns for growth of exception inventory (Internal Revenue Service, 2025).

Table 3 Constraints on transplanting clearance controls

Constraint	Why the Saudi feature does not travel whole	Safer federal analogue
No federal consumption tax credit	Clearance protects a buyer credit the income tax lacks	Structured reporting for income and employment matching
Fiscal federalism	One national value added tax authority	State sales taxes remain with the states
Legacy master files	The platform must receive the stream in filing season	Interface build and file retirement before any duty
Confidentiality and review	Continuous data are finer than an annual return	Purpose limits, access logs, and no score as assessment
Small firm fixed cost	Later waves reach firms without tax technology teams	A simpler schema, vendor standards, and no consumer block
Foreign calendar pressure	Silence at home does not stop foreign mandates	A core object reusable abroad without domestic clearance
Weak evaluation habit	Implementation discipline is not the same as measured yield	Staggered pilots with pre-committed outcomes

Confidentiality and due process are the third constraint, and they become sharper as the data become more granular. Federal tax information is subject to a unique statute, and notice and review procedures have been developed in the context of assessment disputes, and continuous transaction data provide information about customers, prices and timing that an annual return does not. There is a comparative legal analysis of European digital reporting and United States information reporting that suggests that the safeguards in the United States are robust to prevent confidentiality issues, but are more robust on adjudication, while in Europe they are weaker up to now and more remedial in respect of upstream analytics, so that a new feed will require purpose limits, access logs, retention rules, and a clear statement that analytic scores are not assessments (Rizzo, 2026). If that is the case, Saudi clearance will have the right to reject an invoice for a schema failure, and an American system with the same feed would be doing something different than what is listed and approved. The administrative doctrine has recognized that e-invoicing involves having more business data in the hands of the officials

and that governance has to grow with the pipe and not be added as an afterthought (OECD, 2020).

The fourth limiting factor is burden: burden on smaller firms. The fourth limiting factor is one that looks sexy on a revenue table, but can fail politically: burden on smaller firms. Deliberate waves of Saudi businesses hit the businesses at 375,000 riyals and then 187,500 riyals of relevant revenue, including businesses which do not have tax technology teams, and the policy was vendor solutions, notice periods and exemptions from the data model (Zakat, Tax and Customs Authority, 2021). In the United States, a similar incursion into small business would encounter a political economy that has frequently opposed new information returns because of the nature of such returns as operators have experienced them, as forms rather than deterrence. If smaller, less compliant firms are seeing bigger reporting responses, the argument for inclusion is strong and it's not an argument to ignore fixed costs, and that's why the Saudi split between clearance and 24-hour reporting will remain in place, with a transferable design standardizing the software layer, allowing a simpler schema underneath a threshold, and keeping consumer facing sales outside any blocking rule.

The fifth constraint and most obvious one without a domestic clearance veto is interoperability. The wave is in February 2027 (Wisetrend, 2026) and Saudi Arabia is already on the list of other countries with foreign mandate calendars, such as Europe and Latin America. The practical choice is to have a core invoice object that's rich enough to be used by the federal matching pilots and extensible enough for state tax types (Avalara, 2025) to ignore the Sales Tax Exemption Codes in the U.S. sales tax, and this is why a domestic standard that differs without reason from the business standard of the day would be futile to state administrators and would force dual maintenance. Seeking convergence without a single checkout block is one approach that can be achieved on the Union's digital reporting agenda, which is closer to what a federal income tax administration can accommodate than a complete clearance approach would be (European Commission, 2022). The Saudi lesson that travels is publishing the object, and the Saudi institutional fact that does not is to have full ownership of all extensions.

The final limitation to learning is evaluation capacity, and it is the one that is most frequently overlooked in the modernization assessment when evaluating systems deployed. To a certain extent the network results are explained by the staggered adoption and firm to firm links which could be observed in the network, a design feature of the reform as well as a feature of the data (Bellon et al., 2022). The pilot should be designed to be tested, with a staggered start, a pre-committed result (including both receipts and audit yield, cycle time and small firm cost) and a publication pathway that does not wait for 10 years. The international evidence base for electronic invoicing is already available as a class of tool in many economies and a domestic pilot, which is unable to demonstrate whether underreporting moves, will look poorly in comparison (OECD, 2025). Saudi Arabia has been disciplined in its implementation, and the U.S. should not emulate the platform and forego measurement modernization: Obsolete spending will be reviewed by obligation burned, not by the obligation that it was supposed to reduce (U.S. Government Accountability Office, 2025).

Conclusion

The Saudi electronic invoicing rollout is a full-fledged example of how a tax authority can get invoice data from the taxpayer archive to the administration core without making the claim that instantaneously, every business and every sale ought to be treated equally and on the same day. Generation was implemented in December 2021 and integration started in January 2023 for the biggest taxpayers, with other decisions bringing the generation into the scope of the duty to the voluntary registration threshold, and the clearance for standard invoices and reporting taking place within 1 day for simplified invoices. The sequence is consistent with the theory of compliance, the idea that third party trails act as a disincentive to concealment and that effects can spread along trading networks, as are also consistent with the administrative typology in which continuous controls are found in multiple strengths. What the record illustrates is not so much a published national yield that can be pasted into another statute as it is the discipline of the procedures, a specified data object, and the division between credit sensitive supplies and high-volume consumer supplies.

The United States should not consider that record as a law to be imposed but instead as a menu to be followed, since voluntary compliance is high and the filing and payment process is mostly electronic, but the problem is underreporting of timely filed returns. The currently accepted domestic solution to that issue is information reporting, and structured invoice data has the potential to expand upon it, where matching value is high and systems are able to accept the feed. It's not as if a federal value-added tax credit would be shielded, and sales taxes are the responsibility of the states, and legacy master files, and a stalled modernization portfolio don't really warrant a blocking function in business exchange. A national checkout block or even a checkout block that is not state-specific but handles a variety of formats, or even a platform that is not ready for the checkout system, would fail to gain benefits from the waves built to shield.

The key take-aways are sequential introduction, published data standards, adequate time to implement software markets and for the authority's own exception staff to process, a lessened exception for high-volume consumer transactions, separation of file validation from tax assessment, and evaluation ahead of time. Those lessons can be used to guide pilots when advising pilots on large business receipts, partnership transaction matching, and developing a roadmap for transitioning from voluntary structured receipts to a obligation for those who are already filing extensive information returns. They can also lead the way to what not to construct. The learning point about the Saudi experience is that it is a series of decisions regarding timing, scope and the legal consequence, and a jurisdiction that decides when to implement it, what to report and when it will have legal effects, can learn from a clearance regime without being a clearance regime.

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