Receiving Invoice Allocation Numbers from the Tax Authority (IL)

Overview

As part of the update to the Economic Efficiency Law, as of January 1, 2024, the Tax Authority will require an allocation number from every dealer for sales invoices whose amount before VAT is higher than the amount determined by the Tax Authority, as a condition for deducting VAT on expenses.

For an organization to be able to issue an invoice to a customer for a transaction, it must communicate with the Tax Authority through an online system, through which it will submit a request for a special allocation number for the invoice. If the invoice was issued legally, the authority will allocate a number with which the customer can deduct the amount of VAT that appears on the invoice.

The regulation will apply to all businesses that issue invoices in a B2B format, that is, between one business and another.

The obligation to receive an allocation number is for invoices that meet the following conditions:

- The amount of the invoice before VAT is higher than the minimum amount set by the Tax Authority
- The invoice includes VAT
- The customer is a licensed dealer

At the same time, you can request an allocation number for each invoice, amount, and customer.

In addition, associations with approval according to Section 46 must receive allocation numbers for donation receipts entitled to a tax credit, starting with the first Shekel.

Aim

Receive allocation numbers from the Tax Authority for invoices and donation receipts.

Working Assumptions

Working assumptions for On-premise customers (not cloud):

1. You have downloaded and installed the **Israel Invoice Allocation Regulation** add-on, which you can find in the Xpert Downloads page.
2. You have updated the Bin.95 folder to the correct version:
   - For users in 22.0, make sure your BIN.95 folder is updated to version 76 or higher.
   - For users in 22.1, make sure your BIN.95 folder is updated to version 101 or higher.
   - For users in 23.0, make sure your BIN.95 folder is updated to version 42 or higher.
   - For users in 23.1, make sure your BIN.95 folder is updated to version 23 or higher.
3. The application server is installed, and everyone in the organization who must report is connected to the Priority Connect service.

   For more information, see the **Installing the Application Server** SOP and the **Setting Up Priority Gateway** SOP in Xpert.

Note: ***Priority*** performs these tasks for cloud tenants.

Working assumptions for all customers

The accredited organization works with the Tax Authority's online system in a digital certification process that will be carried out through their portal. Then that employee will be asked to identify themselves on the Tax Authority portal with a personal username and password.

You can find an explanation of the certification process here.

Setups

Initial connection to the digital services of the Tax Authority

Note to customers with a local installation: Before the initial connection, the network administrator in the organization must allow access to these addresses: https://secapp.taxes.gov.il/ and https://p.priority-connect.online .

1. Run the Set Up Link to Tax Authority(IL) program.
2. To run the program for the main company, leave the default "000". If the company works with subsidiaries, run the program for each subsidiary.

3. The browser will open and show the login page for the digital services of the Tax Authority. Connect using the ID number with which the authorized employee registered for the service and the defined user code received during the registration process.
4. You will then be asked to perform another verification step by typing a code sent by SMS or email to the user.
5. After a successful identification is completed, a message will appear that the identification was successfully performed.
6. The **ID for Income Tax** checkbox will now be marked for the company in the Companies form, or for the subsidiary in the Subsidiaries form.

Defining constants

In the Financial Constants form:

- In the line of the **AmountRequiringApp** constant, define the minimum amount on the invoice (before VAT) from which you need to receive an invoice allocation number from the Tax Authority. Ensure that in 2024 the constant value will be 25,000. The value must be updated in the following years according to the Tax Authority's publications.
- In the line of the **AutoAllocation** constant, define the value of the constant as 1 if you want the invoice allocation to occur automatically upon closing the invoice. Leave the default value of 0 if you want to keep the allocation and the closing of the invoice as two separate processes.

Defining categories for items

According to the new regulation, each item on the invoice should be classified into a category of items defined in advance by the Tax Authority in the table below.

To load item categories into the system automatically:

You can automatically load the item category data into the system using the Update Basic Data program (for users with appropriate permissions).

> **Note:** Starting with version 23.0, you can select a specific form in the program input for which you want to update infrastructure data (in this case, the Item Categories (Authorities) form). If you do not select this particular form, the system will update all infrastructure data and this may overwrite manually-entered infrastructure data or add duplicate data. In versions prior to 23.0, the program will update all infrastructure data in the system.

To manually define item categories:

1. Enter the Item Categories (Authorities) form.

2. Record the code and description for each category according to the table of the Tax Authority:

Category Code	Category Description
00001	Animals and related products
00002	Fruit/vegetable products
00003	Food and beverages
00004	Mineral products
00005	Chemicals
00006	Plastic/rubber products
00007	Leather and fur products
00008	Wood and wood-related products
00009	Textiles (clothing)
00010	Head and foot accessories
00011	Stone or glass products
00012	Metals
00013	Machinery/electrical products
00014	Transportation
99999	Other

To assign categories to items:

1. Enter the Financial Parameters for Parts form and retrieve the relevant items.
2. In the **Item Category-(Auth)** field, select the category code corresponding to the item type.

   Note: If no category has been defined for the item on the invoice, the item category code that will be sent to the tax authority will be **99999** (Other). We recommended defining a category for the item because starting in 2025, the tax authority's algorithm to identify fake invoices will be activated. Using the code 99999 may lead to cataloging the invoice as fake.

Defining document types for the invoice journal entry

1. Enter the Journal Entry Codes form and move to the line of the relevant invoice type (for example, sales invoice, multi-shipment invoice).
2. In the **Legal Document Code** field, enter a code for the type of invoice linked to the journal entry according to the data defined by the tax authority in the following table:

Document Type	Document Code in Open Format
Invoice-Sales	**305**
Invoice-Sales	306
Multi-Shipment Invoice	**310**

Sales Invoice/Receipt	**320**
Sales Credit Invoice	**330**
Sales Credit Invoice	331
Pro Forma Invoice	**332**

As a first step we recommand defining the **higlighted** codes.

Definitions on the company level

1. Enter the Company Data form of the relevant company.
2. Ensure the company's business number appears in the **Company Number** field.
3. For employees in a multi-company environment who report an annual VAT report to the business association: in the **Consolidated Busn** field, ensure that the company's VAT file number appears (which unifies the various companies in VAT).

Receiving emergency allocation numbers

We recommended asking the Tax Authority for a set of allocation numbers to be used in the event of a failure in its computing and/or communication systems, which is why a number was not allocated to the invoice. The numbers will be saved when necessary and the Tax Authority must be updated on using of the emergency numbers by another invoice transmission of the invoice at the end of the failure, as detailed later in the document.

To receive emergency allocation numbers:

1. Run the Get Emergency No. for Allocation program.
2. To run the program for the main company, leave the default "000". If the company works with subsidiaries, run the program for each subsidiary.
3. The emergency allocation numbers will appear in the Emergency Allocation Numbers form.

Note: The tax authority reserves the right to decide how many emergency allocation numbers to allocate if any. Therefore, while running the program, you may receive a message from the tax authority that no emergency numbers are allowed.

Defining payment method type codes to receive allocation numbers for donation receipts

1. Enter the Payment Means form and go to the line of the relevant payment method type.
2. In the **Tax Authority Code** field, select the appropriate code from the drop-down list according to the definition of the Tax Authority.

For example, for the payment method “cash”, select code “1,” and for the payment method “Visa”, select code “3” (credit cards).

Procedure

Obtaining allocation numbers for invoices

Note: According to the Tax Authority’s requirement, the allocation number must appear on the invoice printout, so it is important to perform this process before printing the original invoice.

1. Enter the relevant invoice form (for example, sales invoice, multi-shipment invoice, debit memo, pro forma invoice) and retrieve the requested invoice.

   Note: This process is for final invoices only.

2. Run the **Get Invoice Alloc from Tax Auth** program from the Actions list. The program will send the invoice to the Tax Authority.

Results

- The allocation number of the invoice will appear in the **Tax Authorities ID** field in the invoice form.
- The allocation number will appear on the invoice printout.
- In the detail of the journal entry created for the invoice (in the **Itemized Entry** form, a subform of the Entry Journal form), in the **Ref. 3 - Entry Item** field, a “short allocation number” will appear, including the 9 rightmost digits of the full allocation number. The short allocation number will be reported to VAT in report PCN874.
- The details of the application sent to the Tax Authority will appear in the Allocation History-Tax Authority form.

Notes:

- **For users who issue invoices outside of Priority:**
  - If you register the invoice in an external system and only transmit a journal entry to ***Priority***, update the interface in the transmitted journal entry. The rightmost 9 digits of the allocation number will appear in the **Ref. 3 - Entry Item** field of the journal entry details.
    - For more information, see the **Interface-External Programs-Journal Entries** document in Xpert.
- **For users who receive an allocation number outside of Priority:**
  - Enter the Invoice Revisions form and close the requested invoice.
  - In the **Tax Authorities ID** field, enter the allocation number for the invoice received from the Income Tax Authority.

- Then, in the detail of the journal entry created for the invoice (in the **Itemized Entry** form, a subform of the Entry Journal form), in the **Ref. 3 - Entry Item** field, the rightmost 9 digits of the allocation number will appear.

- If the Tax Authority refuses to give an allocation number for the invoice, an error message will appear and you will be asked to choose one of the following options:
  - **Continue without approval** - Choose this option to continue without receiving an allocation number from the Tax Authority (with the customer's consent only. Without an allocation number, the customer cannot claim the VAT on the invoice).
  - **Cancel the invoice** - Choose this option to cancel the invoice completely.
  - **Cancel and create a zero-sum invoice** - Choose this option to cancel the invoice and create a copy of the invoice with 0 VAT. In this case, the customer must register the invoice as a self-billing invoice.

Obtaining allocation numbers for invoice batches

You can send a batch of invoices to the Tax Authority to receive an allocation number.

1. Run the **Get Inv Allocations fr Tax Auth** program from the path: **Financials** > **General Ledger** > **Financial Statements** > **Taxes** > **Web Interfaces-Tax Authority(IL)**.
2. In the **Invoice No.** input, drill down to the **List of Invoices for Allocation** form to choose the desired invoices. Click Esc to return to the program input.

   Tip: You can search for the desired invoices by date or use the Advanced Search for multiple search parameters.

   Note: The system will request allocation only for the invoices that meet the criteria for requesting allocation; so, for example, if an invoice has no VAT, it will not be included in the program.
3. The **Last Batch Submission-Tax Auth** form will appear. You can see the invoices that were sent, each in a separate line, with the result of each invoice's submission.
4. If all the invoices were successfully sent, close the form.
5. In the case in which an invoice received an error and was not sent, you can run the following actions from the form header:
   - To send the invoice again, run the **Get Inv Allocation from Tax Auth** program.

- To cancel the invoice, run the **Cancel Invoice** program.
- To allocate an emergency number for an invoice, after 5 failed attempts to send the invoice to the Tax Authority, run the **Allocate Emergency No. for Inv** program. When the communication with the authorities reconnects, send the invoice to the Tax Authority according to the explanation in the Sending invoices with emergency allocation numbers section.

Obtaining allocation numbers as part of closing invoices

If you have set the **AutoAllocation** constant to 1 in the Defining constants section of the Setups, the system will automatically obtain an allocation number for every invoice you close that qualifies for an allocation request (single invoices or batch invoices).

Handling errors

If errors occur during this process, they will be logged in the Send Inv Automatically-Tax Auth form. To handle the errors, the relevant user must open the form, (not necessarily the user who closed the invoice).

Review the error messages in the form, and for each error, decide on a follow-up action from the actions in the form, similar to those described in the section above.

Sending invoices with emergency allocation numbers

If an allocation number was not received after 5 transmission attempts of the invoice (in the event of a failure in the Tax Authority's computer and/or communication systems), it is possible to allocate an emergency number to the invoice from the group of allocation numbers received from the Tax Authority. After that, the invoice should be transmitted to the Tax Authority after the failure is over.

1. Retrieve the invoice and run the **Allocate Invoice Emergency No.** program from the Actions list.
2. The system will allocate an emergency allocation number to the invoice from the group of allocation numbers received and will appear in the **Tax Authorities ID** field.

To transmit the invoice to the Tax Authority after communication reconnects:

1. Enter the Emergency Allocation Numbers form.
2. Retrieve the invoices with an invoice number not marked in the **Use Reported** checkbox.
3. Run the **Submit Inv with Emergency Alloc** program from the Actions list for each invoice.

Loading vendor invoices

- If you type the invoice, in the **Tax Authorities ID** field, type the allocation number that appears on the invoice printout.
- If the invoice is received in the interface, make sure that the allocation number is transmitted and appears in the **Tax Authorities ID** field of the invoice. If the allocation number does not appear, retrieve the invoice in the Invoice Revisions form and type in the **Tax Authorities ID** field the allocation number that appears on the invoice printout.
- If you record the invoice in an external system and only transmit a journal entry to ***Priority***, the interface in the transmitted journal entry must be updated. The rightmost 9 digits of the allocation number will appear in the **Ref. 3 - Entry Item** field of the journal entry details.
  - For more information, see the **Interface-External Programs-Journal Entries** document in Xpert.
- If the invoice is transmitted from a vendor to a customer in data distribution between companies in electronic interfaces (MDM), the allocation number will be transferred automatically.

Obtaining allocation numbers for donation receipts

Note: According to the requirement of the Tax Authority, the allocation number must appear on the receipt printout, so it is important to perform this process before printing the original receipt.

1. Enter the Receipts form and retrieve the relevant receipt.
2. Run the **Submit Donation to Tax Authority** program from the Actions list.

Note: You can receive allocation numbers for a group of receipts using the Set Up Link to Tax Authority(IL) program.

Results

- The allocation number of the receipt will appear in the **Tax Authorities ID** field in the **Receipt - Add'l Details** subform.
- The allocation number of the receipt will appear on the receipt printout.
- The details of the application sent to the Tax Authority will appear in the Allocation History-Tax Authority form.