

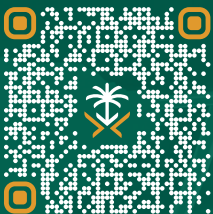


Imports and Exports Guideline

Version 1

Latest document
update

JULY 2020



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Change of VAT rate to 15% as of July 1, 2020

Upon the introduction of VAT in January 2018, the KSA applied a basic VAT rate of 5% to Taxable Supplies and Imports made in the Kingdom. The basic VAT rate was revised to 15% with effect from 1 July 2020 (the “Revised VAT Rate”).

Transitional rules have been introduced to clarify the VAT rate to be applied to long-term contracts for continuous supplies which span 1 July 2020, and for certain supplies where invoices are issued or contracts are concluded prior to 11 May 2020. These rules, and further detail surrounding the change to the VAT rate -including guidance in respect of specific types of supply- are detailed in a separate guideline on the Revised VAT Rate.

This Guideline was originally issued before the VAT rate was revised to 15%, and its content is based on the 5% rate in force at the time of its issue. Any references to the 5% VAT rate in this Guideline should be interpreted as 15% where applied to any Supplies or Imports made on or after 1 July 2020 and in accordance with the transitional rules. Monetary examples or calculations in this Guideline which include a 5% VAT rate should also be interpreted as if the 15% rate applied for all Supplies or Imports made on or after 1 July 2020 and in accordance with the transitional rules.

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1. Introduction

1.1. Implementing a Value Added Tax (VAT) system in the Kingdom of Saudi Arabia (KSA)

The Unified VAT Agreement for the Cooperation Council for the Unified Arab States of the Gulf (the "VAT Agreement") was approved by KSA by a Royal Decree No. M/51, dated 31438/5/ H. Pursuant to the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia issued the VAT Law under Royal Decree No. M/113 dated 21438/11/ H («the VAT Law») and its corresponding Implementing Regulations were subsequently issued by the Board of Directors of the General Authority of Zakat and Tax ("GAZT") by Resolution No. 3839 dated 141438/12/ H («the Implementing Regulations»).

1.2. General Authority of Zakat & Tax ("GAZT")

GAZT, also referred to as "the Authority" herein, is the authority in charge for the implementation and the administration of VAT in KSA. In addition to the registration and deregistration of taxable persons for VAT, the administration of VAT return filing and VAT refunds, and undertaking audits and field visits; GAZT also has the power to levy penalties for non-compliance with VAT regulations.

1.3. What is Value Added Tax?

Value Added Tax ("VAT") is an indirect tax which is imposed on the importation and supply of goods and services at the production and distribution stages, with certain exceptions. VAT is imposed in more than 160 countries around the world.

VAT is a tax on consumption that is paid and collected at every stage of the supply chain, starting from when a manufacturer purchases raw materials until a retailer sells the end-product to a consumer. Unlike other taxes, persons subject to VAT will both:

- Collect VAT from their customers equal to a specified percentage of each eligible sale; and
- Pay VAT to their suppliers equal to a specified percentage of each eligible purchase.

When taxable persons sell a good or provide a service, a 5% VAT charge – assuming a standard case – is assessed and added to the sales price. The taxable persons will account for that 5% that they have collected from all eligible sales separately from its revenue in order to later remit a portion of it to the Authority. The VAT taxable persons collect on their sales is called Output VAT.

That same will apply to purchase transactions by persons subject to VAT, in that VAT will be added at the rate of 5% to purchases of goods or services from other taxable persons (on the assumption that the basic rate applies to those supplies). The VAT a business pays to its suppliers is called Input VAT.

Further general information about VAT can be found in the KSA VAT Manual or at vat.gov.sa

1.4. This Guideline

This guideline is addressed to all natural persons and legal persons practicing economic activities and subject to Tax. The purpose of this guideline is to provide further clarifications regarding imports of goods and services to the KSA, and exports of goods and services from the KSA.

This guideline represents GAZT's views on the application and fair treatment with respect to the Unified VAT Agreement, the VAT Law and the Implementing Regulations with respect to imports and exports as of the date of this guideline. This guide amounts to a guideline, and does not

include, or purport to include, all the relevant provisions in relation to imports or exports from those laws. It is not binding on GAZT or on any taxpayer in respect of any transaction carried out and it cannot be relied upon in any way.

For further advice on specific transactions you may apply for a ruling, or visit the official VAT website at (vat.gov.sa), which contains a wide range of tools and information that has been established as a reference to support persons subject to VAT, as well as visual guidance materials, all relevant information, and FAQs.

2. Definitions of the main terms used

Customs Department – is the Department responsible for the administration and control of all imports of goods to the KSA, and export of goods from the KSA⁽¹⁾.

It operates under the name Saudi Customs, which is the term used in this guideline.

Common Customs Law – the Common Customs Law of the GCC States, which is approved by Saudi Customs⁽²⁾.

The Implementing Rules to the Common Customs Law are published by Saudi Customs as the “Customs Procedures Manual”.

Goods is a defined term for VAT purposes as:

“All types of material property (material assets), including water and all forms of energy including electricity, gas, lighting, heating, cooling and air conditioning.⁽³⁾”

Import of Goods is defined for VAT purposes as “The entry of Goods into any Member State from outside the GCC Territory in accordance with the provisions of the Common Customs Law⁽⁴⁾. During the transitional period, the receipt of Goods into the Kingdom from another Member State by a Taxable Person will be treated as an import of goods to the KSA⁽⁵⁾. These transitional measures are discussed in further detail in section 9 of this guide. Any movement of goods to the KSA during this transitional period will be considered an Import of Goods for the purposes of this guideline.

Importer is defined for VAT purposes as the person liable for paying VAT on the Import of Goods, pursuant to the Common Customs Law⁽⁶⁾. The Common Customs Law defines Importer to mean “the natural or legal person importing the goods⁽⁷⁾”.

Customs declaration is defined in the Common Customs Law as:

“the goods declaration or the declaration submitted by the importer or his representative describing the elements identifying the declared goods and quantity thereof in details according to the provisions of this regulation.⁽⁸⁾”

A **Consignor** is not a defined term for VAT purposes, but is a commercial term to describe the supplier, or other person responsible for transporting goods to a customer or consignee.

A **Consignee** is not a defined term for VAT purposes, but is a commercial term to describe the recipient to whom goods are physically delivered by a supplier or consignor.

The **Import of Services** is not a defined term for VAT purposes (the term “Import” in GCC and KSA law is used solely in connection with an Import of Goods). It is used in this guideline to refer to supplies of services which are received by a person in the KSA, where the place of supply of those services is the KSA, but where the supplier is a non-resident.

(1) Refer also to Saudi Customs’ website at <https://www.customs.gov.sa/en>

(2) Refer to Saudi Customs website

(3) Article 1, Definitions, Unified VAT Agreement

(4) Article 1, Definitions, Unified VAT Agreement

(5) Article 79(7), Transitional provisions, Implementing Regulations

(6) Article 42, Person Obligated to Pay Tax in respect of Import, Unified VAT Agreement

(7) Article 2(29), Common Customs Law

(8) Article 2(34), Common Customs Law

Export of Goods is a defined term for VAT purposes as:

“Supply of Goods from any Member State to the outside of the GCC Territory in accordance with the provisions of the Common Customs Law.⁽⁹⁾”

The export of goods therefore must involve a supply of those goods. A movement of a person's own goods outside of the GCC Territory is not a supply for VAT purposes, other than in the case of a Nominal Supply.

During the transitional period, a supply of goods involving transport of the goods from the KSA to another GCC Member State shall be treated as an Export of the Goods for VAT purposes⁽¹⁰⁾. These transitional measures are discussed in further detail in section 9 of this guide. Any supply of goods from the KSA during this transitional period will be considered an Export of Goods for the purposes of this guideline.

A **Nominal Supply** is defined for VAT purposes as:

“Anything that is considered a Supply in accordance with the cases provided for in Article 8 of [the Unified VAT] Agreement.

Based on article 8 of the Unified VAT Agreement, a Taxable Person shall be deemed to have performed a supply of goods when disposing of goods that form part of its assets in any of the following cases⁽¹¹⁾:

- the assignment of goods, for purposes other than economic activity, with or without a consideration;
- changing the use of goods to use for non-taxable supplies;
- retaining goods after ceasing carrying on an economic activity; and
- Supplying goods without consideration, unless the supply is in the course of business, such as samples and gifts of trivial value as determined by each Member State.

A Taxable Person shall be deemed to have made a supply of services in the following cases:

- use by him of goods that form part of his assets for purposes other than those of an economic activity; and
- Supplying services without consideration

The abovementioned Nominal Supplies of goods and services are only recognized in case the Taxable Person has deducted Input Tax in relation to the listed events.

Resident is defined as “A person will be resident in a State if he has a Place of Residence therein⁽¹²⁾”, and a **non-Resident** is defined as “A person is not resident in a State if he has no Place of Residence therein⁽¹³⁾”.

“A resident” includes a resident company if it is formed under the Saudi Arabian Companies’ Law or if its central management is located in the KSA.

If a company or other legal person is incorporated outside of the KSA, but has a branch, place of business or other type of fixed establishment in the KSA, that company is also a resident⁽¹⁴⁾.

(9) Article 1, Definitions, Unified VAT Agreement

(10) Article 79(7), Transitional provisions, Implementing Regulations

(11) Article 1, Definitions, Unified VAT Agreement.

(12) Article 1, Definitions, Unified VAT Agreement

(13) Article 1, Definitions, Unified VAT Agreement

(14) Article 1, Definitions, Unified VAT Agreement

It is possible that a company or legal person will have an establishment in more than one country, and may therefore be resident in two different countries for VAT purposes. For example, one legal entity may have branches in different countries.

In these cases, the branch or establishment which is most closely connected to the supply of goods or services will be where the legal person is resident for determining the place of that supply.

Direct export is not a defined term in KSA law. For the purpose of this guideline, it describes an export of goods where the supplier is responsible for transporting the goods outside of GCC Territory (or outside of the KSA under the transitional rules).

Indirect export is not a defined term for VAT purposes in the KSA. For the purpose of this guideline, it describes an export where the customer is responsible for transporting the goods outside of GCC Territory (or outside of the KSA under the transitional rules).

The **Export of Services** is not a defined term for VAT purposes. It is used in this guideline to refer to supplies of services made from a supplier in the KSA to recipients without residence in the GCC.

During the transitional period, a supply of services to a person who is resident in another a GCC state shall be treated as an Export of Services. These transitional rules are discussed in more detail in section 9 of this guideline.

Trade Terms or **Incoterms** are not defined terms for VAT purposes. These are agreed terms of trade determined by International Chamber of Commerce for international contracts, designed to communicate which party is responsible for various costs and risks surrounding the transport of goods. The Incoterms trade terms are often denoted by three letter abbreviations such as CIF (for Cost Insurance and Freight). Trade terms are indicative, but are not determinative of the contractual position agreed between the parties.

3. Economic Activity and Registration

3.1. Who carries out an Economic Activity?

An economic activity may be carried out equally by natural persons or legal persons.

It will be presumed that a legal person (company) that has a regular activity making supplies carries on an Economic Activity. It should be stated that natural persons may perform certain transactions as part of their economic activity, or as part of their private activities. There are therefore specific rules to determine whether or not a natural person falls within the scope of VAT.

Natural persons and legal persons who carry on an economic activity must register for the purposes of VAT if so required, and such persons must collect the VAT applicable to their activities, and pay the tax collected to the Authority.

3.2. Mandatory registration

Registration is mandatory for all persons whose annual turnover exceeds a certain threshold. If the total value of a person's taxable supplies during any 12 months exceeds SAR 375,000, (the "mandatory VAT registration threshold"), that person must register for VAT⁽¹⁵⁾ on the supplies made, subject to the transitional provisions provided for in the Implementing Regulations.

Taxable supplies do not include:

- Exempt supplies– such as exempt financial services or residential rental which qualifies for VAT exemption;
- Supplies taking place outside the scope of VAT in any GCC state; or
- Revenues on sales of capital assets – a capital asset is defined as an asset allocated for long-term business use⁽¹⁶⁾.

In certain circumstances, other tests will apply for mandatory registration:

- Persons who are not resident in the Kingdom of Saudi Arabia are required to pay the VAT in respect of supplies made or received by them in the Kingdom of Saudi Arabia and to register for VAT irrespective of the value of the supplies for which they are obliged to collect and pay the VAT⁽¹⁷⁾.
- During a transitional period up to 1 January 2019, businesses will only be required to register where annual turnover exceeds SAR 1,000,000, and an application for registration must be submitted no later than 20 December 2018⁽¹⁸⁾.

More information on mandatory registration for VAT is contained at vat.gov.sa

(15) Article 3, Mandatory registration - Supplies exceed the Mandatory Registration Threshold, Implementing Regulations

(16) Article 1, Definitions, Unified VAT Agreement.

(17) Article 5(1), Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom, Implementing Regulations.

(18) Article 79 (9), Transitional provisions, Implementing Regulations

3.3. Optional VAT registration

Any Resident person in the Kingdom of Saudi Arabia who has taxable supplies or taxable expenses exceeding the “Optional VAT registration threshold” of SAR 187,500 in a twelve-month period may register for VAT on a voluntary basis⁽¹⁹⁾.

Optional VAT registration may be desirable where a business wishes to claim VAT charged to it on their costs before invoices are raised or the occurrence of an onward supply.

More information on voluntary registration for VAT is contained at vat.gov.sa

(19) Article 7, Voluntary Registration, Implementing Regulations

4. Imports of Goods

4.1. Charging of VAT on imports

VAT is chargeable on the import of goods as a separate event to any supply of those goods.

“Without prejudice to the second article of the Law, for the purposes of applying the Agreement and the Law in the Kingdom, Tax is imposed on all Taxable Supplies of Goods and services made in the Kingdom by a Taxable Person, or received in the Kingdom by a Taxable Person in instances where the Reverse Charge Mechanism applies, as well as on Imports of Goods.”⁽²⁰⁾

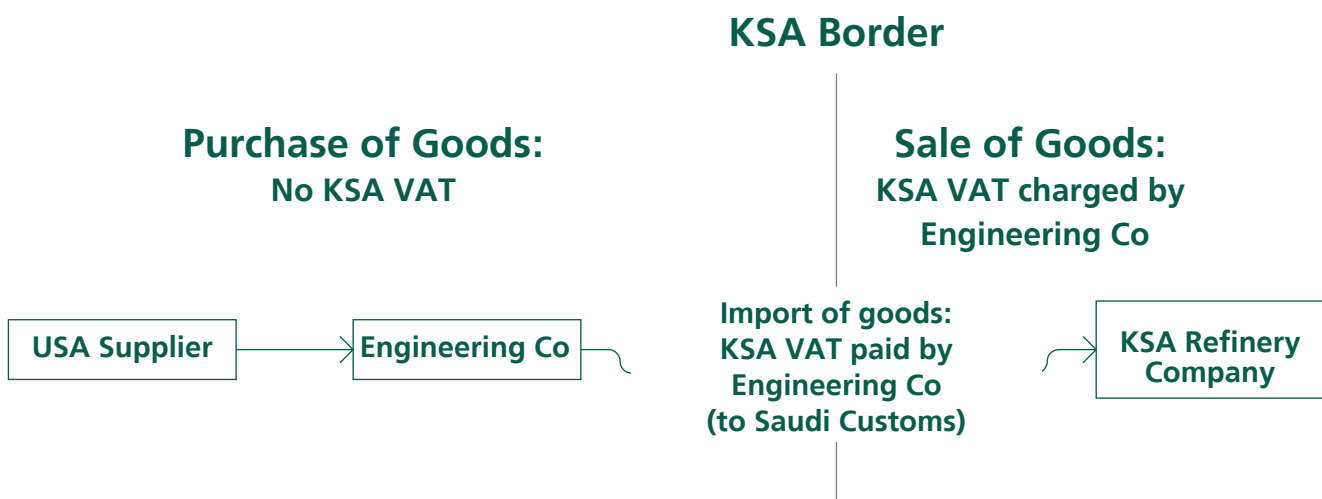
The imposition of VAT upon the import of goods therefore applies separately, and in addition to, any VAT imposed on the supply of those same goods.

The supply of goods made before the formal import clearance into the KSA is not a supply subject to VAT⁽²¹⁾. The supply of goods made after the formal import clearance into the KSA, when goods are situated in the KSA, is generally a supply which takes place in the KSA and is subject to VAT⁽²²⁾.

Example (1): An engineering company established in the KSA is providing skilled technicians to maintain and upgrade oil refinery equipment. Upon visiting a refinery in Jeddah, it determines that a specialist part is required to be ordered. The customer – Refinery Company, the owner of the refinery - requests to order and supply five units of this specialist part so that it has a reserve stock.

The Engineering Co orders five units from a specialist supplier in the USA. The US supplier agrees to send the parts under trade terms where it assumes the liability for Cost Insurance and Freight (CIF) of the goods to the port in Jeddah. The contract agrees that title and risk passes at the port in Jeddah, before the Engineering Co performs the formalities to import the parts.

The sale of goods from the US supplier to the Engineering Co is not a supply in the KSA. VAT is charged by Saudi Customs on the import of goods, based on the CIF price (SAR 600,000 for five units – with import VAT at 5% being SAR 30,000). The sale of the stock of five units to Refinery Company is a supply of goods subject to VAT (sale price of SAR 130,000 excluding VAT per unit: VAT collected on sale of five units being SAR 32,500)



(20) Article 14, Taxable Supplies in the Kingdom, Implementing Regulations

(21) Article 27(3), Goods sold with transportation, Implementing Regulations

(22) Article 26(1), Goods situated in the Kingdom, Implementing Regulations. This is subject to limited exceptions, such as special place of supply rules for supplies of electricity, which are not subject to standard import procedures.

In this example, the Engineering Co pays VAT on the import of the goods, and also charges VAT on the supply of the same goods in KSA to the customer. With respect to the input VAT deduction, the Engineering Co can deduct the import VAT paid to Saudi Customs of SAR 30,000, and KSA Refinery Company deducts the VAT of SAR 32,500 charged on the purchase as the goods are to be used in their taxable activity. Therefore, whilst VAT applies twice on the same goods, there is no additional VAT cost to the supply chain.

VAT is chargeable at the rate of 5% on all imports of goods into the KSA, regardless of the classification of the goods, of what duty rate applies, or in the case the goods are exempt from customs duty. There are some limited exemptions from VAT on specific types of imports which are discussed in section 5 of this guide.

4.2. Import procedure

The Common Customs law requires that a customs declaration shall be produced for any goods entering or leaving the country⁽²³⁾. The customs declaration is made by the importer or his representative using an Electronic Form.

The supplier must complete the declaration with information on the nature of the goods imported (a tariff code, origin and description), and the value of those goods (the value of imported goods in riyals). From this information, Saudi Customs will automatically calculate the customs duty, excise duty and VAT due as part of the declaration. The customs declaration also includes amounts for handling, storage and other charges which are collected by Saudi Customs on behalf of transportation and logistics suppliers. These amounts are also included in the value relevant for calculating VAT.

The customs declaration is required to disclose the Tax Identification Number (TIN) of the importer. The TIN will in most cases be automatically populated in the declaration form. If the TIN is not automatically populated, importers should update their ID number with Saudi Customs to provide one of the following IDs: Commercial Registration; 700 Code; KSA ID; or GCC ID.

In all cases, a person must be licensed to carry out an import into the KSA.

4.3. Collection of VAT on import

The VAT payable on the import of goods must be paid to Saudi Customs, together with the duty and other charges indicated on the customs declaration, to facilitate the release of goods to free circulation.

The importer can access the summary of VAT paid on imports through the Customs portal. This information is the definitive record of all amounts of VAT paid to Saudi Customs on imports.

4.4. Valuation of imports

The Unified VAT Agreement sets out that:

“The value of imported Goods will be the customs value determined in accordance with the Common Customs Law plus Excise Tax, Customs duty and any other imposts apart from VAT.⁽²⁴⁾”

(23) Article 19, Common Customs Law

(24) Article 28(1), Value of Imported Goods, Unified VAT Agreement

The Customs valuation is determined in line with the Rules of Implementation to the Common Customs Law⁽²⁵⁾. The predominant method for determining the valuation is the transaction value, i.e. the price actually paid or payable when the goods are sold for export from the state of origin (for corresponding import to the GCC states). Alternative valuation methods are prescribed in cases where a transaction value cannot be ascertained.

The transaction value is adjusted by additions and deductions from the price.⁽²⁶⁾

The customs declaration form prescribes the value to be shown as the CIF value – including the costs of freight and insurance to the place of importation.

Saudi Customs will automatically calculate the VAT due based on the declared value (including the incidental services charged by Saudi Customs) and the applicable VAT rate for each different tariff entry on the customs declaration.

4.5. Amendment of customs declarations

If an importer notices the VAT amount payable is incorrect, due to an error in classification or value, he should raise this with Saudi Customs before payment is made.

In some cases, an amendment may need to be made to a customs declaration after clearance of the goods.

If the amendment requires additional payment of duty and VAT, this is processed by way of a "Collection Order" issued by Saudi Customs, with the additional amounts collected from the importer.

If the incorrect customs declaration results in an overpayment of VAT, Saudi Customs will adjust the duty payable but does not refund the VAT. This may be deducted as input tax under the standard procedures described in section (10) of this guideline.

4.5.1. Application of VAT on charges collected by Customs

Any suppliers of handling, storage, or other services whose charges are collected by Saudi Customs must determine whether VAT is applicable on the supply of those services. The VAT on the supply of these individual services is separate to the VAT payable on the import. Services which relate to a transport of goods starting outside the KSA will in many cases fall outside the scope of VAT⁽²⁷⁾. Further detail on services relating to goods transport is provided in the Transportation guideline.

4.5.2. Valuation of re-imported goods

In cases where goods are exported from the KSA for completion of manufacturing or repair and subsequently re-imported, special valuation rules apply upon the subsequent import of those goods. The value for import purposes is calculated "on the basis of value added to them as provided for in the Common Customs Law"⁽²⁸⁾.

The value for VAT purposes will therefore be the same as the value determined for duty purposes and shown on the customs declaration. VAT will be automatically calculated by Saudi Customs based on the appropriate VAT rate for the tariff classification of the goods.

(25) Article 26, Common Customs Law

(26) Article (1)(Fourth/B&C), Rules of Implementation of the Common Customs Law

(27) Article 18, Supply of Goods and Passenger Transportation Services, Unified VAT Agreement

(28) Article 28(2), Value of Imported Goods, Unified VAT Agreement and Article 105 (3), Returned Goods, Common Customs Law.

5. Imports of Goods – Special Cases

5.1. Exempt imports

The following imports of goods are exempt from import VAT⁽²⁹⁾.

1) Goods subject to VAT at the zero-rate

“Import of Goods if the supply of these Goods in the final destination country is exempted from Tax or subject to Tax at zero-rate.”

This includes the import of Qualifying Medicines and Qualifying Medical Goods⁽³⁰⁾, and the import of Qualifying Metals⁽³¹⁾. Please refer to the Healthcare and Investment Metals guidelines for details on which goods are qualified.

These goods will be recorded on the customs declaration but will have a zero VAT amount calculated.

2) Exempted Goods under Common Customs Law

“Importation of the following Goods that are exempted from customs duty under the Common Customs Law:

- a) diplomatic exemptions;
- b) military exemptions;
- c) Imports of used personal luggage and household appliances which are brought by citizens residing abroad and foreigners who are coming to reside in the country for the first time.
- d) Imports of returned Goods.”

3) Personal luggage and gifts accompanied by travellers as specified by each Member State

Travelers entering the KSA through an airport, port or border crossing may enter goods of a personal and non-commercial nature without the payment of import duties or VAT, where the value of the goods does not exceed 3,000 riyals, and subject to other criteria published in the Rules of Implementation of the Common Customs Law⁽³²⁾.

These are the only exemptions from customs duty that also result in an exemption to the VAT payable on import. Other items that are ‘exempt’ from duty or have a zero duty rate are in principle subject to VAT upon importation.

In all cases, the exemption from VAT is administered by Saudi Customs as part of the import procedures for clearance of goods. Imports of goods which are exempt from VAT under the above categories are not required to be disclosed in the VAT return.

(29) Article 38, Exemptions on Importation, Unified VAT Agreement – relevant for all quotes in the table

(30) Article 35, Medicines and medical equipment, Implementing Regulations. Note that this category includes the “requisites for people with special needs” as anticipated by Article 38(d), Exemptions on Importation, Unified VAT Agreement

(31) Article 36, Supplies of investment metals, Implementing Regulations

(32) Article 19, Exemption of personal effects and gifts accompanying the passengers, Rules of Implementation of the Common Customs Law

5.2. Customs duty suspension and temporary admission

The payment of VAT is suspended, in line with the suspension of other duties, when goods are placed in a customs warehouse or other suspension situations (goods in transit, or duty-free shops⁽³³⁾) and are not released to free circulation:

“Tax shall be suspended on imports of Goods that are placed under a customs duty suspension situation in accordance with the conditions and provisions provided for in the Common Customs Law.⁽³⁴⁾”

Saudi Customs administers the goods held in customs duty suspension. It may require cash security or a bank guarantee for the amount of VAT which would be payable on the release of goods to free circulation (in addition to any security held on the duty amount)⁽³⁵⁾. VAT is payable on the release of goods to free circulation.

Goods may also be temporarily released to free circulation under temporary admission without payment of duties, provided that certain criteria are met⁽³⁶⁾. This is a regime administered by Saudi Customs, and also qualifies as a customs duty suspension situation. Provided that the goods are under a valid temporary admission arrangement, VAT does not become due.

5.3. Payment of VAT on import through the VAT return

The Implementing Regulations provide that a taxable person may apply to GAZT for approval to pay VAT on imports of goods through the VAT return, instead of paying this to Saudi Customs at the time of entry of the goods⁽³⁷⁾. If a taxable person has approval to do so, this VAT will be reported in Box 9 of the VAT return, rather than in Box 8 as for VAT paid to Saudi Customs.

This is a relief which GAZT is able to allow to specific taxable persons at its exclusive discretion. All taxable persons who are not authorized to pay the VAT on import through the VAT return, are obligated to pay the VAT that is automatically calculated by Saudi Customs on the customs declaration.

The conditions for the taxable person application to be authorized to pay the VAT on import through the VAT return are the following:

1. Using a monthly Tax Period and make Imports of Goods on at least a monthly basis.
2. The ability to evidence that during the most recent twelve-month period, or during all the time the person has been a Taxable Person if less than twelve months, all Tax Returns and payments have been made on time, and all other obligations in respect of VAT have been met.
3. Provide a sufficient evidence of the Taxable Person’s continuing financial stability.

The above will apply in accordance with the application mechanism issued by GAZT.

(33) Section VII, Cases Where Customs Taxes “Duties” Are Suspended And Drawback, Common Customs Law

(34) Article 39, Suspension of Tax, Unified VAT Agreement

(35) Article 65(3), Security, Implementing Regulations

(36) Article 8994-, Temporary Admission, Common Customs Law

(37) Article 44, Payment of Tax on imports through the Tax Return, Implementing Regulations

5.4. Imports of goods for installation or construction

In some cases, goods may be imported into the KSA in order for the supplier to use these in a construction work or to install at the customer's premises. This section deals with the particular case where the supplier is a non-resident.

Supplies under a construction project are considered to be supply of services, with the value of the goods forming a part of that supply. The supply of a construction work is subject to VAT where the real estate is located⁽³⁸⁾. Further detail is provided on real estate services in the Real Estate guideline.

In other cases where goods are supplied, and a separate charge is made for installation services in the KSA, both the supply of goods and the installation may be subject to VAT in the KSA (depending on the contractual arrangements for the supply of the goods), in addition to the VAT paid on the import of the goods.

In the case of a non-resident supplier, the VAT charged on the goods and services provided to a taxable customer in the KSA is self-accounted by the taxable customer under the reverse charge mechanism⁽³⁹⁾.

In all cases, VAT is paid by the importer of goods, and the right to deduction of that VAT is with the importer (VAT deduction is discussed in more detail in section 10).

If the goods are imported by the customer in respect of an onwards supply of construction or installed goods, the customer remains obliged to pay the VAT on import and to seek deduction as input VAT if the goods are used in the course of an economic activity which constitutes making taxable supplies.

Example (2): Al Amjad Company, a Saudi industrial company purchases solar equipment from China Company, which is a supplier established in China and is a specialist provider of solar generation panels, for SAR 4,000,000 to generate additional energy for its business activities. The agreement provides that China Company will send personnel to carry out the installation, and will bear the risk for any damage to the goods until the installation is complete and title finally passes to Al Amjad Co.

Al Amjad Co uses its import licence to act as importer. The import value is SAR 3,200,000 – as the cost of post-import installation is excluded from the declared customs value.

The import of the solar panels by Al Amjad Co is subject to VAT of SAR 160,000 (5% x SAR 3,200,000). The supply of goods, together with installation, is also subject to VAT.

As China Company is a non-resident, Al Amjad Co self-accounts for VAT on the supply under the reverse charge mechanism of SAR 200,000 (5% x SAR 4,000,000). Both amounts are considered Input Tax borne by Al Amjad Co and are in principle eligible for deduction as they are used for the purposes of Al Amjad Co's economic activity.

(38) Article 19, Supply of Real Estate Related Services, Unified VAT Agreement

(39) Article 41, Customer Obligated to Pay Tax According to the Reverse Charge Mechanism, Unified VAT Agreement

5.5. Imports of Goods by non-taxable persons

Persons who are importing but are not taxable persons (not VAT registered) are still liable to pay VAT on the import of goods. VAT will be charged by Saudi Customs on the customs declaration, following the standard procedures outlined in section 4. In cases where the person importing Goods is not authorized by Saudi Customs to act as importer (i.e. it does not have an import license), the import formalities may be completed by a broker or representative, and the VAT and duty amount will be charged to the importer. A non-taxable person is not eligible to deduct VAT charged on the import of goods⁽⁴⁰⁾, notwithstanding any rights of Eligible Persons to claim refund of VAT paid on imports.

5.5.1. Deemed import by non-taxable persons from GCC states

Notwithstanding the transitional provisions for GCC trade discussed in section 9 of this guideline, certain movements of goods to the KSA by non-taxable persons will be deemed to be imports for VAT purposes.

“In cases where any legal Person or a natural Person who is resident in the Kingdom but who is not registered for VAT enters Goods with a value exceeding ten thousand (10,000) riyals into the Kingdom from another Member State, and cannot prove at the time of such entry that Tax was paid on the purchase of those Goods in such Member State, that Person is deemed to make an Import of those Goods for the purposes of this Law and VAT shall be payable on such imports.⁽⁴¹⁾”

Where this provision applies, Saudi Customs will require a customs declaration to be made and will collect VAT under the standard procedures outlined in section 4.

Saudi Customs has the discretion to accept or reject evidence provided by the person entering the goods of the payment of VAT in the other GCC state, and to apply VAT on the import in cases where insufficient evidence is provided.

(40) Article 70, Refund of Tax to designated Persons, Implementing Regulations

(41) Article 41, Goods deemed to be imports into the Kingdom, Implementing Regulations

6. Import of services

6.1. Receipt of services from a non-resident supplier

There is no formal import procedure for services, and VAT is not collected on an event of importation of services by Saudi Customs in the same way as for goods.

VAT is charged on services which are supplied in the KSA to a taxable person by a non-resident supplier by way of the reverse charge mechanism.

“If the Taxable Person in a Member State receives taxable [Goods or] Services from a Person who is a resident in another Member State, then he shall be deemed to have supplied these [Goods or] Services to himself and the Supply shall be taxable in accordance with the Reverse Charge Mechanism⁽⁴²⁾.

If a Taxable Person residing in a Member State receives Services from a person who is not resident in the GCC Territory, then that Person shall be deemed to have supplied these Services to himself and the Supply shall be taxable according to the Reverse Charge Mechanism. ”

A non-resident supplier is a supplier with no place of business or other fixed establishment in the KSA: where an establishment is a primary place of business or any other fixed location with the permanent presence of human and technical resources in such a way as to enable the Person to supply or receive Goods or Services⁽⁴³⁾. Examples of fixed establishments in a separate country to the main place of business include a legal person with a head office in the UAE and a branch office in Riyadh, or a KSA company with a registered service branch in Bahrain.

In cases where a person has establishments in more than one country, the branch or establishment which is most closely connected to the supply of goods or services will be where the legal person is resident for determining the place of that supply⁽⁴⁴⁾.

Example (3): Dammam Industrial Vehicles is a KSA company registered for VAT with a branch office of the same entity in Bahrain. A customer takes a truck to the Bahrain branch for maintenance. The Bahrain branch is considered to be the supplier for VAT purposes, and the supply does not fall within the scope of KSA VAT.

Example (4): Al Qimmah Security is a UAE company which provides online security for banks. Al Qimmah Security was established in the UAE but has expanded throughout the GCC and also has a registered branch of the same entity in Riyadh. Al Qimmah Security enters into a contract to provide remote monitoring services for a bank in Riyadh. The bank enters into a contract directly with Al Qimmah Security representatives in the UAE, and all services are provided from personnel and equipment in the UAE. In this case, whilst Al Qimmah Security has a KSA branch, the UAE head office of Al Qimmah Security is most closely connected to the supply of the services. Therefore, Al Qimmah Security is considered a non-resident in respect of this supply.

(42) Article 9, Receiving Goods and Services, Unified VAT Agreement

(43) Article 1, Definitions, Unified VAT Agreement

(44) Article 1, Definitions, Unified VAT Agreement and Article 21(4), Taxable status of Supplier and Customer, Implementing Regulations

6.2. Place of supply of services

Applying the general rules to determine the place of supply, most services received by a Taxable Person in the KSA are considered to take place in the KSA for VAT purposes⁽⁴⁵⁾.

Special rules apply to specific categories of services (Special Cases) outlined in the Unified VAT Agreement. The five categories below are relevant to supplies made to recipients who are Taxable Persons⁽⁴⁶⁾.

1. **Supply of Goods and Passenger Transportation Services**⁽⁴⁷⁾: the place of supply of these services is in the country where the transportation services commences. See the Transportation guideline for further detail.
2. **Supply of services which are closely linked to Real Estate**⁽⁴⁸⁾: the place of supply of these services is in the country where the Real Estate (including any specific area of land and any building or construction works on such land) is located (the state). See the Real Estate guideline for further detail.
3. **Telecommunications services and electronically supplied services**⁽⁴⁹⁾: the place of supply of these services is in the country where the actual use or enjoyment from those services takes place. For many services in this category, the use or enjoyment is ascertained by the customer's usual residence, determined using specified customer information. See the Digital Economy guideline for further detail.
4. **Restaurant, hotel and catering services**⁽⁵⁰⁾: the place of supply of these services is in the place of actual performance

Example (5): Al Sarh Co, a KSA company, sends employees to Jordan for business, where they stay and dine in a hotel in Amman.

The services are supplied in Jordan, and are therefore not subject to the reverse charge mechanism on receipt by Al Sarh Co as a taxable person in the KSA

5. **Cultural, artistic, sport, educational and recreational Services**⁽⁵¹⁾: the place of supply of these services is in the place of actual performance⁽⁵²⁾, when they are for admission to an event at a physical location, or educational services provided in a physical location.

Education offered remotely over the internet is instead considered an electronically supplied service.

Example (6): Al Salam Co holds an event in Riyadh. It hires a guest motivational speaker and charges an attendance fee to business guests. The services are supplied in the KSA for VAT purposes, regardless of the country of establishment of the business recipients.

(45) Article 16, Place of Supply of Services between Taxable Persons, Unified VAT Agreement

(46) Special rules also apply to the lease of means of transport to a non-taxable customer, or for services linked to transported goods supplied to a non-taxable customer. This guideline only considers services for which a Taxable Person in the KSA as customer may have a VAT obligation under the reverse charge mechanism.

(47) Article 18, Supply of Goods and Passenger Transportation Services, Unified VAT Agreement

(48) Article 19, Supply of Real Estate Related Services, Unified VAT Agreement

(49) Article 20, Supply of Wired and Wireless Telecommunication Services and Electronically Supplied Services, Unified VAT Agreement

(50) Article 21, Supply of Other Services, Unified VAT Agreement

(51) Article 21, Supply of Other Services, Unified VAT Agreement

(52) Article 25 (1), Place of Supply - other services, Implementing Regulations

6.3. Reverse charge mechanism

Under the reverse charge mechanism, the recipient is deemed to have made the supply of services to himself. Therefore, the recipient must report Output VAT, and is at the same time eligible to deduct corresponding Input VAT provided the standard criteria for deduction are met (section 10 of this guideline).

The reverse charge mechanism is only due on services which are taxable in nature. The receipt of exempt services (such as a loan received from a non-resident supplier), is not a taxable supply and is not required to be shown on the VAT return.

The VAT accounted for under the reverse charge mechanism must be entered in Box 9 of the VAT return form. The VAT return form automatically assumes input VAT is fully deductible by the recipient on the supplies received. Taxable persons who are not fully entitled to deduct VAT in relation to that supply must make a corresponding adjustment to Box 9 of the VAT return.

Whilst the reverse charge mechanism involves a deemed supply of services by the recipient, the recipient is not required to issue a tax invoice to itself in respect of the deemed supply. The recipient should however retain the supplier invoice with its business records to support the calculation of VAT under the reverse charge mechanism.

Example (7): Al Safa is a bank (established in the KSA and registered for VAT purposes). The Bank makes both taxable and exempt supplies; and it is able to deduct 70% of the VAT it incurs on non-attributable costs under its proportional deduction calculation.

The Bank receives legal advice in respect of their entire operations from a specialist UK law firm. The law firm charges the equivalent of SAR 100,000 (based on the SAMA prescribed daily exchange rates) on its invoice for the report, dated 21 June 2018.

In the VAT return for the month of June, The Bank enters the amount of SAR 100,000 into Box 9, to reflect the supply subject to the reverse charge mechanism. In order to account for the 30% of non-deductible input VAT, The Bank enters SAR 30,000 in the adjustment field of Box 9. The VAT return calculates VAT payable of SAR 1,500 in respect of the receipt of services.

		Amount (SAR)	Adjustment (SAR)	VAT Amount (SAR)
9	Imports subject to VAT accounted through Reverse Charge Mechanism	100,000	30,000	(1,500)

6.4. Receipt of services by non-taxable persons

The receipt of services from a non-resident supplier by a non-taxable KSA resident is not subject to VAT under the reverse charge mechanism. In cases where non-resident suppliers provide taxable services to non-taxable recipients in the KSA, it will be the supplier's eventual obligation to register for VAT and charge VAT as appropriate⁽⁵³⁾.

If a KSA resident person receives taxable services in the course of carrying out an Economic Activity, and is not registered for VAT, the receipt of services will count towards the mandatory registration threshold for the purpose of registration⁽⁵⁴⁾. The recipient may therefore be liable to register as a result of the receipt of services from non-resident suppliers.

(53) Article 5, Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom, Implementing Regulations

(54) Article 50, Mandatory registration, Unified VAT Agreement

7. Exports of Goods

7.1. Zero-rating of exports

The export of Goods outside the GCC territory is subject to the zero-rate of VAT⁽⁵⁵⁾.

Note: Transitionally, a supply involving the movement of goods outside of KSA territory to other GCC member states is also considered an export subject to the zero rate⁽⁵⁶⁾. References to movements outside of GCC territory in this section should be read to include movements outside of KSA territory during the transitional period. This is discussed in more detail in section 9 of this guideline.

In standard cases, an export involves both:

- The completion of an export declaration by the exporter as required under the Common Customs Law⁽⁵⁷⁾; and
- Transport of the goods outside of the GCC territory.

The transport of the goods, and completion of export formalities, may commercially be carried out under the direction of either the supplier or customer – respectively, a direct export or an indirect export. This may affect the ability to apply the zero-rate to the supply.

In all cases, a supply may only be considered as an export where the supplier and customer both intend that the goods are transported outside the GCC territory as a consequence of that supply⁽⁵⁸⁾.

The trade terms or Incoterms agreed between the parties in respect of a supply, if any, are not determinative but may indicate which party is liable for movement of the goods, or where risk to the goods passes. For example:

- ✓ A supply made under **Ex-Works** (EXW) trade terms: whereby the customer is responsible for collecting the goods from the supplier's premises, without a named point of destination – suggests the parties have not agreed that the supply involves transport outside of GCC territory as a consequence of the supply.
- ✓ A supply made under **Delivered at Place** (DAP) trade terms; whereby the supplier is responsible for arranging carriage and for delivering the goods to a named destination outside of the GCC – suggests the parties agree that the supply involves transport outside of GCC territory as a consequence of the supply.

7.2. Direct exports

In the case of a direct export - where the supplier arranges the transport of goods outside the GCC territory and the export declaration, GAZT considers that the supplier makes an export of goods for VAT purposes.

(55) Article 34, Supplies to Outside the GCC Territory, Unified VAT Agreement

(56) Article 79(7), Transitional provisions, Implementing Regulations

(57) Article 42, Common Customs Law

(58) Article 27(1), Goods sold with transportation, Implementing Regulations.

7.3. Indirect exports

Under an indirect export, the supplier does not arrange the transport of the goods from the GCC Territory. There are additional conditions to ensure that a supplier making an indirect export can apply the zero-rate to his supply.

GAZT considers that the zero-rate can only apply to indirect exports where:

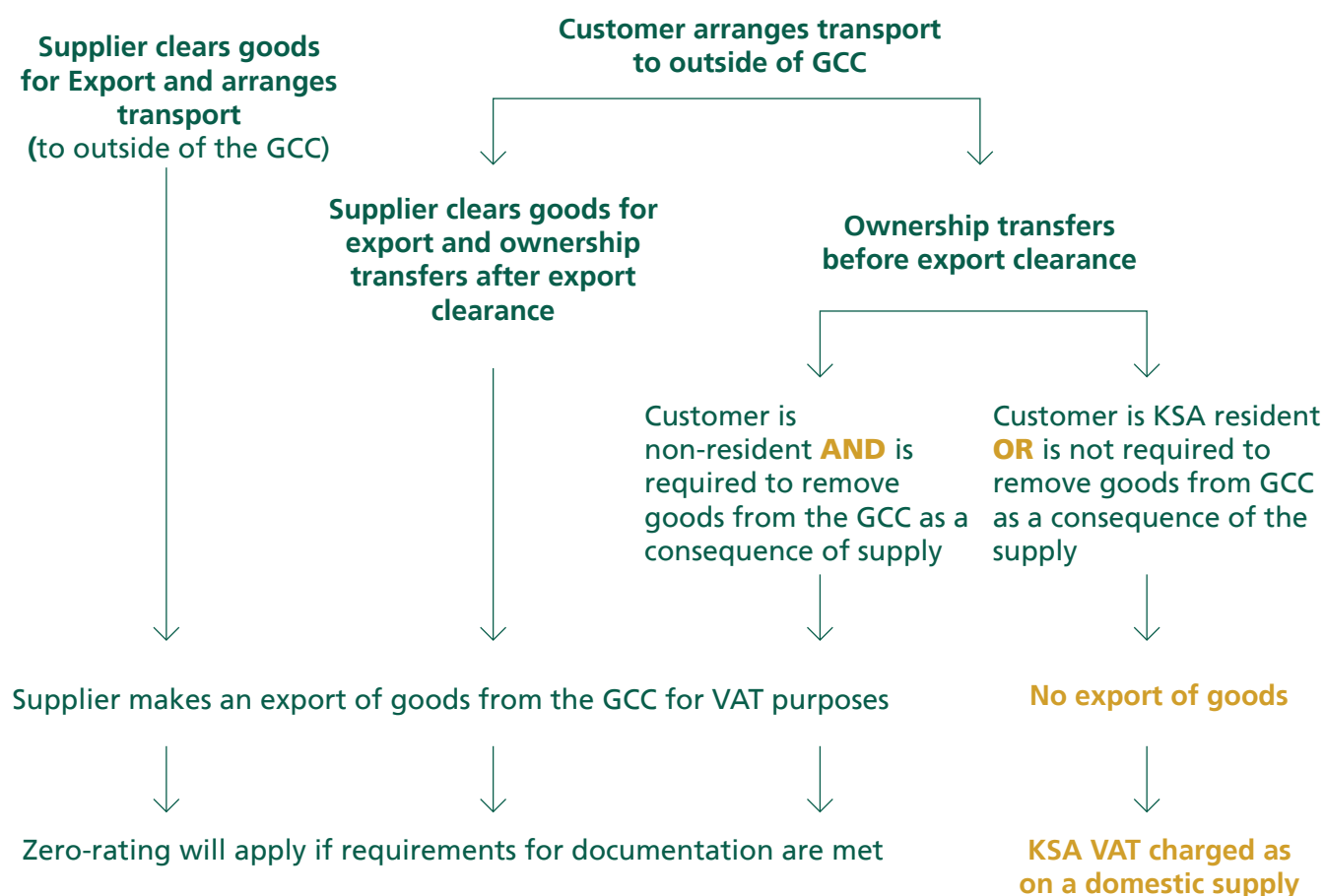
- The supplier clears the goods for export and the ownership of the goods transfers to the customer after the export clearance takes place; or
- The ownership of the goods transfers before export clearance in cases where the customer is not a KSA resident and the customer is required to transfer them from the KSA as a consequence of that supply.

The supplier must also be able to confirm from the commercial arrangements that the goods are actually exported by the non-resident customer, and are not the subject of another supply made in the KSA.

Documentary evidence, as prescribed in section 7.4, must be retained to support the application of the zero-rate in the case of an examination by GAZT. If the supplier is not certain that the customer will export the goods, or does not have sufficient evidence of this, it must apply VAT at 5% (in the same way as for a domestic supply).

Example (8): A manufacturer of plastic resins in Jeddah (registered for VAT) enters into a contract with a trader established in Egypt, for the latter to purchase 1,000 litres of resin for SAR 30,000. The contract states that the product will be picked up from the manufacturer's warehouse in Jeddah, but does not prescribe a shipping method for the resin. The Egyptian trader is unable to provide transportation evidence to the manufacturer that the resin was shipped to a location outside of the GCC as a consequence of the supply. As manufacturer does not hold the required evidence, it must therefore apply VAT at 5% to the supply.

Flowchart for Exports



7.4. Documentation to evidence export

A supplier making an export of goods must in all cases obtain documents to evidence the goods being transported outside of GCC Territory. This evidence must include at least the following:

- export documentation issued by the Customs Department or equivalent Department of another Member State, showing the Goods being formally cleared for export on behalf of the Supplier or Customer of that Supply,
- commercial documentation identifying the Customer and the place of delivery of the goods,
- transportation documentation evidencing the delivery to, or receipt of goods outside of Council Territory .

Commercial documentation may be an invoice, contract, consignment or inventory list, or similar formal document issued to, issued by or agreed with the customer. This should evidence the transport of the goods being made to a place outside of GCC territory⁽⁵⁹⁾.

Transportation documentation is a formal bill of lading or equivalent document issued by a carrier or transportation company, or other verifiable third party evidence of transport where the Goods are transported using a courier or other third party.

If GAZT rejects the documentation submitted by the supplier, the supply is treated as being made without export until such time that sufficient documentation is later obtained⁽⁶⁰⁾.

(59) Article 32(3), Exports of Goods from the Kingdom, Implementing Regulations

(60) Article 32(4), Exports of Goods from the Kingdom, Implementing Regulations

Documentation must be obtained by the supplier within (90) days of the date of the supply. A supplier may therefore apply the zero-rate at the date of supply if he expects to receive appropriate documentation in the normal course of events.

If no documentation is obtained by this date, the supplier must treat his supply as a domestic supply (as if the supply had not involved an export) and apply the standard VAT rate accordingly.

Example (9): Al Karamah Co is a company established in the KSA and registered for VAT that agrees to sell fabric to a customer in Turkey as a direct export. It engages an international shipping company to arrange the collection of fabric from its premises on 28 June 2018, complete customs formalities on its behalf, and ship this to the customer's premises. The date of supply is the date upon which the transportation of the goods starts, and Al Karamah Co raises an invoice to the Turkish customer with VAT applied at the zero-rate. The export documents and transportation documents are received by the shipping company on 3 July 2018, confirming the export of the goods from GCC territory and the correct application of the zero-rate.

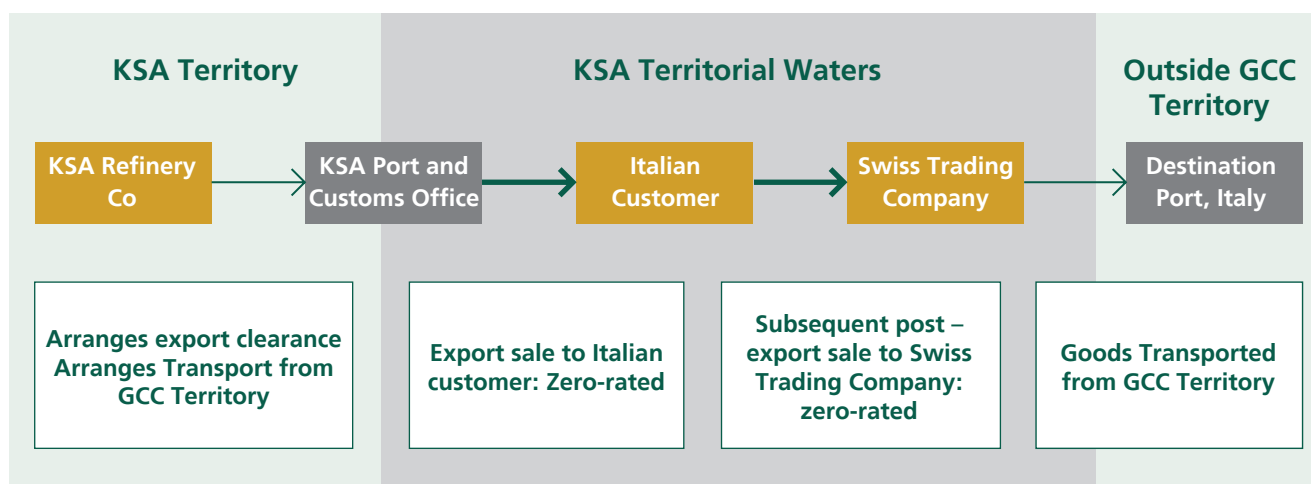
7.5. Supplies made after export clearance

Supplies of certain commodities can often be purchased and sold whilst on a ship carrying out an international transport. In this way, goods may be supplied whilst physically located in the Kingdom (i.e. within its territorial waters), despite having been earlier cleared for export⁽⁶¹⁾.

Any subsequent supply of goods made after the export clearance is also an export of goods and zero-rated⁽⁶²⁾.

Example (10): KSA Refinery Company registered for VAT enters into a contract to sell 200,000 litres of bitumen to an Italian customer. The goods are sold under the Cost Insurance and Freight (CIF) trade term, with the named destination port of Trieste, Italy. Under this trade term, KSA Refinery Company is liable for clearing the goods for export and for the costs and risk of transport to the destination port. KSA Refinery Company makes an export of goods for VAT purposes.

After the goods are cleared for export and loaded onto the vessel, the Italian customer accepts an offer to sell the same quantity of 200,000 litres of bitumen to a Swiss commodity trader for an increased price, under the same trade terms. The sale – and the transfer of ownership of the bitumen is zero-rated.



(61) Article 1(1), VAT Law – Definition of the Kingdom

(62) Article 32(5), Exports of Goods from the Kingdom, Implementing Regulations

7.6. Export of goods without sale

For Customs purposes, an export of goods includes any transport of goods outside of the Kingdom, including any person (legal person or natural person) moving goods from the KSA without sale.

For VAT purposes, the shipment of a person's own goods outside of GCC territory – including movements made in the course of an economic activity – is not a supply of goods for consideration. Therefore, the zero-rate does not apply in this event as no supply is made⁽⁶³⁾. Movements of goods outside of GCC territory should not be recorded on a taxable person's VAT return.

7.7. Special cases

7.7.1. Supplies under customs suspension

Supplies of goods within a customs duty suspended location specified under Common Customs Law (within a customs warehouse, duty-free store or during transit procedures) are zero-rated⁽⁶⁴⁾. The supplier must retain sufficient evidence as to the location of the goods at the time of their supply in order to apply the zero-rate⁽⁶⁵⁾.

A supply involving movement of goods from free circulation in the KSA to a duty free shop – provided this movement of goods is approved under the procedures of Saudi Customs – will also qualify for zero-rating.

7.7.2. Re-exports of imported goods

The zero-rate also applies in the case of:

“re-export of moveable Goods that have been temporarily imported into the GCC Territory for repairs, refurbishment, conversion or processing as well as the Services added to these Goods.”⁽⁶⁶⁾

The Customs procedures and declarations for making a re-export of goods differ to the standard procedure for exporting goods of KSA origin⁽⁶⁷⁾. For VAT purposes however, the requirements and conditions for applying the zero-rate to re-exports are the same as those applying for a standard export.

(63) A nominal supply of goods could be made in a case where a Taxable Person ships goods outside of GCC territory for use in a non-economic activity.

(64) Article 34, Supplies to Outside the GCC Territory, Unified VAT Agreement

(65) Article 32(7), Exports of Goods from the Kingdom, Implementing Regulations

(66) Article 34, Supplies to Outside the GCC Territory, Unified VAT Agreement

(67) Articles 918-, Rules of Implementation of the Common Customs Law

8. Export of Services

Note: Transitionally, a supply of services to recipients in GCC member states without a VAT system – or to any GCC state before the introduction of an Electronic Services System - is, subject to meeting the criteria, also considered an export of services subject to the zero rate⁽⁶⁸⁾. This is discussed in more detail in section 9 of this guideline. References to services provided to non-GCC recipients in this section should be read to include services provided to recipients in other GCC member states during the transitional period.

8.1. Place of supply of services

KSA VAT is only chargeable on services which take place in the KSA under the place of supply rules. The first step in applying VAT to exported services is to consider the country in which the place of supply takes place.

By default, all supplies of services made by a KSA resident fall within the scope of KSA VAT:

“The place of supply for Services provided by a Taxable Supplier shall be the Place of Residence of the Supplier.⁽⁶⁹⁾”

There are exceptions to this default for **supplies made to taxable customers**, and for **certain types of services (special cases)**.

8.1.1. Supplies made to a taxable customer

The place of supply for supplies made to a taxable customer in another GCC state is in that state (unless any of the exceptions for special cases apply). A taxable customer is a person who is registered for VAT in the Member State where it has a Place of Residence on the date the Supply takes place, or is required to be registered in that Member State⁽⁷⁰⁾.

During the transitional period for the introduction of VAT, this exception will only apply in respect of supplies made to persons who are registered for VAT in a Member State which has implemented a VAT system, and have an Electronic Services System in place with the KSA, before or with the date of supply.

Customers who are registered for VAT or a similar system in a non-GCC state are not considered taxable customers.

Example (11): A lawyer in the KSA provides advice on Saudi law to a customer who is registered for VAT in the UAE. An Electronic Services System is in place between the KSA and UAE when the services are supplied (transitional rules do not apply). The service is provided to a Taxable Customer in another GCC state and is not subject to KSA VAT.

Example (12): A lawyer in the KSA provides advice on Saudi law to a UK entity who is registered for VAT in the UK, but has no establishment or VAT registration in the GCC. The service is not provided to a taxable customer and therefore falls within the scope of KSA VAT. However, the provisions for exported services may result in KSA VAT being charged at the zero rate.

(68) Article 79(6), Transitional provisions, Implementing Regulations

(69) Article 15, Place of Supply of Services, Unified VAT Agreement

(70) Article 21, Taxable status of Supplier and Customer, Implementing Regulations

8.1.2. Exceptions for special cases

The exceptions for certain types of supplies (special cases) as outlined in section 6.2 of this guideline, apply equally to services provided by KSA suppliers to non-resident customers.

Example (13): A company established and registered for VAT in the UAE pays an annual subscription for its employees to use the airport lounge facilities at the Riyadh international airport. The service relates to the use of a specific area of real estate (a special case), and is therefore subject to VAT, even though it is made to a taxable customer in another GCC state.

8.2. Zero-rating services provided to non-GCC residents

The supply of services by a KSA supplier, for a Customer who does not reside in the GCC Territory and who benefits from the service outside the GCC Territory, is in principle subject to the zero-rate⁽⁷¹⁾.

In order to apply the zero-rate, the supplier must ensure it can meet each of the criteria set out in Implementing Regulations⁽⁷²⁾:

a. The supply of those services does not take place in any Member State under “special cases” described in the Unified VAT Agreement (and outlined in section 6.2 of this guideline)⁽⁷³⁾.

Example (14): A business established in India contracts with a hotel in the KSA to provide accommodation for its employees. The supply of hotel services is a special case for place of supply purposes, which is deemed to be supplied where carried out (KSA). Zero-rating cannot apply to a service which is a special case. The hotel charges KSA VAT at 5%.

b. The supplier has no evidence that the customer is resident in any GCC Member State and has evidence that the customer is a resident outside the GCC Territory. GAZT expects this evidence will generally be satisfied in practice by the issue of an invoice or other correspondence to a non-GCC address. Any publicly available information showing the recipient having an office or branch in the GCC should result in further investigation.

Example (15): A German engineering company has an established branch in the KSA with an office, employees and a Commercial Registration. The head office (in Germany) requests local tax advice from a KSA accountancy firm. The supplier is aware that the German company has a place of residence in the KSA, so cannot apply the zero rate. KSA VAT is charged at 5% on the invoice.

c. The benefit of the Services is not received by the customer, or any other Person, when that person is situated in the KSA. A non-resident customer with no GCC establishment may still have employees or other representatives in the KSA on a temporary basis, who can receive the benefit of services in the KSA. Where this happens, the zero-rate should not apply. This condition is interpreted narrowly to benefits directly provided by the supplier to the customer or another person.

(71) Article 34, Supplies to Outside the GCC Territory, Unified VAT Agreement

(72) Article 33, Services provided to non-GCC residents, Implementing Regulations

(73) Articles 1721-, Place of Supply – Special Cases, Unified VAT Agreement

Returning to example (15): but in this case, the German company has a subsidiary entity in the KSA who requires assistance with VAT returns. The German company contracts with a KSA accountancy firm to provide VAT assistance. Whilst the accountancy firm is instructed by and enters into a contract with the German company, it provides assistance directly to the team of the KSA subsidiary. The benefit of the services are directly received by a person in the KSA and the invoice to the German company is not eligible for zero-rating

Example (16): A natural person resident in Egyptian pounds (non-resident customer) visits a currency kiosk at Riyadh airport to exchange Egyptian Pounds to Saudi riyal whilst travelling on business. The currency provider charges a commission to the non-resident customer. The benefit of the currency conversion is received by the non-resident customer in the KSA. VAT will be charged on the currency provider's commission.

d. The services are not related to any tangible goods or property located in the GCC Territory during the supply. This should be seen to include any services which affect or have the tangible goods or property as a central part of the service. Insurance on moveable property situated in the GCC should therefore not qualify for zero-rating, even where provided to a non-GCC resident.

Example (17): A logistics provider charges a Korean supplier of electronic goods for storage and distribution of a stock of goods held in the KSA. The services relate to tangible goods located in the KSA, and the supply may not be zero-rated. The logistics provider charges KSA VAT at 5% on the storage and distribution services.

e. The supplier intends for the Services to be enjoyed outside the GCC Territory. The supplier should anticipate that the recipient will use the services in the course of activities outside of the GCC.

f. The supplier has no evidence that the benefit of the Services will be enjoyed within the GCC Territory. This requirement (to provide evidence) looks at the original supply by the supplier: the customer should ultimately benefit from the services outside the GCC. The supplier should not zero-rate if his services are directly provided to a person in the GCC (but paid for by a non-GCC customer). The onwards provision of services by the customer to a third party (an indirect customer) which is later enjoyed in a GCC country does not breach this requirement (to provide evidence).

GAZT considers that for the interpretation of this provision, the benefit of services is enjoyed within GCC Territory, and the services are not eligible to be zero-rated under this provision, in cases when:

- the non-resident (via an employee or other person situated in the KSA) receives the some part of the service whilst in the KSA,
- the service is performed in respect of the non-resident's tangible property in the KSA, or
- the services are performed directly by the supplier for the benefit of some other person in the KSA.

Example (18): An insurer in the KSA enters into a reinsurance contract with a third party, (non-resident reinsurance provider established in Switzerland). Under the reinsurance contract, the KSA insurer pays an annual premium to insure a portfolio of its risk.

The KSA insurer separately charges an upfront commission to the Swiss company as consideration for the activities in referring the sale. The commission is consideration for services provided by KSA insurer. The services provided by the KSA insurer are directly provided to the non-resident reinsurance provider, and there is no consumption of this service by any person within the KSA.

The underlying insurance contracts which make up KSA insurer's risk portfolio, provided by KSA

insurer to recipients in the KSA, do not affect the zero-rating of the commission.

8.3. Further examples

This table is intended to illustrate application of the principles above – it is not intended to be an exhaustive list.

	Standard-rated	Zero-rated
Lease of tangible goods to person who has no GCC/KSA place of residence where tangible goods located outside the GCC / KSA	In all cases where lease of tangible goods located in the GCC / KSA	To a non-resident only if tangible property is outside the GCC/KSA
Lease of immoveable property	In all cases where property is in KSA, except for exempted residential lease – see Real Estate guideline	Zero-rate cannot apply (Special Case under Unified VAT Agreement)
Provision of intangible assets / intellectual property	N/A	Zero-rated in most cases provided recipient has no GCC/KSA place of residence
Physical work on goods (repair, alteration)	In all cases where goods are in GCC/KSA	To a non-resident only if tangible good is outside the GCC/KSA
Storage of goods	In all cases where goods are in KSA	To a non-resident in GCC only if tangible property is outside the GCC/KSA
Testing services relating to goods	In all cases where goods are in KSA	May be zero-rated (under a separate provision) if provided with and ancillary to an international transport service – see Transportation guideline
Financial services	Where customer or direct recipient receives services in GCC/KSA (e.g. currency exchange at kiosk), or financing of a physical asset in GCC/KSA (see Financial Service guideline)	Zero-rated in most cases provided recipient has no GCC/KSA place of residence
Insurance services	If relating to an insured person or physical asset in the GCC/ KSA. Special Case may apply for insurance of real estate or insurance of a transport.	Zero-rated if recipient has no GCC/ KSA place of residence and no link to an insured person/asset in the GCC/KSA (e.g. reinsurance of a portfolio of risks)
Sales commission	Need to examine exact nature of services (e.g. standard rate if commission is paid for any services involving physical handling of goods in KSA)	Zero-rated in most cases provided recipient has no GCC/KSA place of residence
Intermediary fees	N/A	Zero-rated in most cases provided recipient has no GCC/KSA place of residence

Advertising services	In cases where customer or direct recipient (such as an affiliate supplying goods or services in the KSA) receives benefit of advertising in GCC/KSA	If recipient has no GCC/KSA place of residence and does not make supplies of goods/services from the GCC/KSA
Market research	In cases where a person in KSA receives direct benefit of services	Zero-rated in most cases provided recipient has no GCC/KSA place of residence
Consultancy / advisory services	If recipient is receives the services whilst in the GCC/KSA (e.g. whilst carrying on a project there)	Zero-rated in most cases provided recipient has no GCC/KSA place of residence
Administration services	Need to examine exactly what services are being supplied to determine if any GCC/KSA consumption	Zero-rated in most cases provided recipient has no GCC/KSA place of residence
Management services	Need to examine exactly what services are being supplied to determine if any GCC/KSA consumption	Zero-rated in most cases provided recipient has no GCC/KSA place of residence
Recharge / onwards charge of costs	Need to examine exactly what services are being supplied to recipient, in order to determine if any GCC/KSA consumption	Need to examine exactly what services are being supplied to recipient, in order to determine if any GCC/KSA consumption
Electronic services	In case of actual use inside KSA or the place of residence is KSA (Article 24 of Implementing Regulations). (Special case under the GCC Agreement. Supplies to non-residents will often fall outside the scope of VAT).	Zero-rate cannot apply – Special Case under GCC Agreement
Services provided directly to an individual	If person receives services in GCC/KSA, (even if another person contracts for provision of services).	Zero-rate cannot apply
Education services	Standard rate will apply for educational services provided in the KSA.	Zero-rate cannot apply – Special Case under GCC Agreement. Note that remote learning may fall under Electronic Services.
Transport services	Standard-rated if the place of supply is in the KSA and the (separate) zero-rate for services relating to international transport does not apply	Zero-rate or out of scope may apply according to special provisions. Zero-rate for services to non-residents cannot apply – Special Case under GCC Agreement. Note: transport-related services may fall outside scope or be zero-rated. (see transportation guideline)

9. Transitional provisions

The place of supply rules for intra-GCC trade in the GCC VAT Agreement are designed to operate in a system where all GCC states have introduced a domestic VAT system, and processes for exchanging information on intra-GCC trade have been implemented.

Transitional rules apply to ensure the appropriate application of VAT in the transitional period, which effectively treat all GCC states outside the KSA as non-GCC territory during a transitional period, until the GCC Agreement measures are implemented in full including the introduction of an Electronic Services System.

9.1. Import of goods from GCC states

The Implementing Regulations set out a transitional rule to deem movements from other Member States to be imports.

“Prior to the introduction of the Electronic Services System in all Member States:

(a) a Taxable Person who receives Goods into the Kingdom from another Member State shall be deemed to have imported the Goods into the Kingdom, and Tax will be collected in accordance with the provisions for other imports⁽⁷⁴⁾”

The procedure for the filing of customs declarations and collection of VAT by Saudi Customs are the same as for an import of goods from outside of GCC territory.

Example (19): The owners of ABC Co, a small trading company based in Al Khobar, visit Bahrain to purchase electronic goods in the market. They return with a van of goods purchased for commercial resale. The owners must present themselves to Saudi Customs at the land border and complete a customs declaration of the goods being imported into the KSA, in line with the requirements of Saudi Customs.

Following inspection of the goods by Saudi Customs, the VAT payable on the import of goods is calculated and payable before the goods are released to free circulation in the KSA.

The transitional rule applies until the Electronic Services System⁽⁷⁵⁾ is implemented across all Member States. This will be formally announced by way of an Order made by GAZT, after which date the transitional rule will cease to apply and VAT will be applied based on the rules for intra-GCC trade set out in the Unified VAT Agreement.

(74) Article 79(7), Transitional provisions, Implementing Regulations

(75) Article 71, Electronic Service Systems, Unified VAT Agreement

Summary: Goods supplied to a KSA customer		
Goods shipped from:	Transitional treatment	Treatment following introduction of Electronic Services System
KSA	KSA VAT charged	KSA VAT charged
Other GCC state	Import: VAT paid to Saudi Customs by importer	Supply to a Taxable Customer: Customer accounts for KSA VAT under the reverse charge mechanism Supply to a non-taxable customer: No KSA VAT charged (unless supplier is registered or required to register in the KSA)
Non-GCC state	Import: VAT paid to Saudi Customs by importer	Import: VAT paid to Saudi Customs by importer

9.2. Export of Goods to GCC countries

A corresponding transitional rule applies to movements from the KSA to another GCC Member State.

“Prior to the introduction of the Electronic Services System in all Member States:

(b) Supplies of Goods involving transport of the Goods from the Kingdom to another Member State shall be treated as an Export of the Goods for VAT purposes.⁽⁷⁶⁾”

The conditions and evidence requirement for a supplier to apply the zero-rate to an export of goods to another GCC state during the transitional period are the same as those applicable to an export of goods outside of GCC Territory (discussed in section 7 of this guideline).

Summary: Goods supplied by a KSA supplier		
Goods shipped to destination in:	Transitional treatment	Treatment following introduction of Electronic Services System
KSA	VAT charged at 5%	VAT charged at 5%
Other GCC state	Export: Zero-rate	Supply to a Taxable Customer: no KSA VAT chargeable Supply to a non-taxable customer: KSA VAT charged (unless supplier is registered or required to register in other GCC state)
Non-GCC state	Export: Zero-rate	Export: Zero rate

(76) Article 79(7), Transitional provisions, Implementing Regulations

9.3. Services received from other GCC states

All services received by a Taxable Customer in the KSA from a non-resident supplier, where the place of supply of services is in the KSA, are subject to VAT under the reverse charge mechanism. This applies whether the non-resident supplier is resident in another GCC state, or has no place of GCC residence.

In this way, the transitional rules do not expressly affect the receipt of services in the KSA.

9.4. Services provided to other GCC states

The transitional rules consider any GCC state without an introduced VAT system to be wholly outside the ambit of GCC VAT ("third countries") – with corresponding effects on the place of supply and the concept of a GCC resident⁽⁷⁷⁾.

The rules for internal trade between GCC countries are not operational until the other GCC Member State has introduced a VAT system, and this is covered by an Electronic Services System operating between that Member State and the KSA. Until such time, the other GCC states are considered to be outside of GCC territory. Supplies made in that state are considered to be made in a third country outside of GCC territory, and residents in that State are treated as residents of a non-GCC country.

Therefore, KSA VAT will in principle apply to all supplies made by KSA suppliers to (taxable or non-taxable) customers in other GCC states – unless the special cases for place of supply apply.

During the transitional period, zero-rating may apply for supplies of services to recipients who are established in another GCC state and are not established in the KSA. To apply zero-rating, the tests described in section 8.2 are applied, noting that other GCC states are not considered as GCC Territory during this transitional period.

Under the fact set in example (11): A lawyer in the KSA provides advice on Saudi law to a recipient who is registered for VAT in the UAE. In this transitional example, whilst UAE has implemented a VAT system at the time of supply, there is not however any Electronic Services System operational between the countries. The place of supply of services is therefore determined under the standard provisions for supplies of services made by a supplier resident in the KSA, even though the service is provided to a Taxable Customer in another GCC state.

The supplier must consider whether zero-rating can apply, considering the tests set out in section 8.2 for transitional purposes. Where the UAE recipient does not have an establishment in the KSA or received the performance of the services in the KSA, the KSA lawyer may therefore apply the zero-rate.

Example (20): Kuwait Catering Company engages Al Qasim Co, a market research firm located in the KSA, to carry out market research on soft drinks to help its business strategy. Al Qasim Co carries out the research in cities around the KSA, but the results of the research are provided to Kuwait Catering Company in Kuwait, with no benefit received in the KSA. At the date of the completion of the services on 24 February 2018, Kuwait did not have an operational VAT system. Therefore, the place of supply of Al Qasim Co's services falls within KSA VAT. However, as Kuwait Catering Company is considered a non-GCC resident under the transitional rules, Al Qasim Co may apply KSA VAT at the zero rate, provided the remaining tests for zero-rating in section 8.2 are met.

(77) Article 79(6), Transitional provisions, Implementing Regulations

10. Input VAT Deduction

10.1. General Provisions

A VAT registered person may deduct Input VAT charged on goods and services it purchases or receives in the course of carrying on its Economic Activity. Input VAT may be deducted on:

- VAT charged by a VAT-registered supplier in the KSA;
- VAT self-accounted by the VAT-registered person under the Reverse Charge Mechanism;
- or
- Import VAT paid to Saudi Customs on imports of goods into the Kingdom.

As a general rule, input VAT which is related to the taxpayer's VAT exempted activities is not deductible as input VAT.

In addition, input VAT may not be deducted on any costs incurred that do not relate to the Economic Activity of the taxable person (including some blocked expenditure types such as entertainment, sporting or cultural services, catering service, and restricted motor vehicles)⁽⁷⁸⁾, or on any costs which relate to making exempt supplies.

This input VAT is a credit entered on the VAT return which is offset against the VAT charged on supplies (output VAT) made during that period. Input VAT may only be deducted where the Taxable Person holds a tax invoice, or customs documents showing the amount of tax due, (or any other document showing the amount of input tax paid or due, subject to the approval of the Authority)⁽⁷⁹⁾.

10.2. Proportional deduction relating to input VAT

VAT incurred which relates to a taxpayer's VAT exempt activities, such as exempt financial services or residential rental, is not deductible as Input VAT. A person making both taxable and exempted supplies, can only deduct the Input VAT related to the taxable supplies.

If a taxable person incurs general costs or expenses (overheads) in the making of taxable supplies, and others that are exempt from VAT, he must in that event split the costs and expenses precisely so as to specify those costs that relate to the taxable supplies. The input tax will be determined in accordance with the following rules⁽⁸⁰⁾:

Input VAT directly attributed to taxable supplies	Deduct in full
Input VAT directly attributed to exempt supplies	No deduction
Overheads and input VAT that cannot be directly attributed to taxable supplies	Partial deduction based on apportionment

The overhead costs/expenses incurred by the Taxable Person for making both taxable and exempted supplies must be apportioned to most accurately reflect the use of those costs in the **taxable portion** of the taxpayer's activities.

(78) A detailed list of the blocked expenditures is listed under Article 50 of the Implementing Regulations.

(79) Article 49(7), Input Tax Deduction, Implementing Regulations.

(80) Article 51, Proportional deduction of Input Tax, Implementing Regulations

A prescribed default method of proportional deduction is calculated on the values of supplies made in the year, using of the following fraction:

$$\frac{\text{The value of **Taxable Supplies** made by the Taxable Person in the last calendar year}}{\text{The total value of **Taxable Supplies** and **Exempt Supplies** made by the Taxable Person during the last calendar year}}$$

The fraction for the default method does not include supplies of Capital Assets made by the taxpayer, as these distort the use of input VAT.

Alternative attribution methods, using other calculation approaches than the value of supplies, may be approved with GAZT in cases where these better reflect the actual use of VAT incurred. Further information about deduction of VAT and proportional VAT recovery is provided in the Input Tax deduction guideline.

10.3. Deduction of VAT on imports

Deduction of VAT is only available for the person who acts as importer of the goods into the KSA. As a condition of input VAT deduction, a taxable person must hold:

“the customs documents proving that he imported the Goods in accordance with the Common Customs Law.⁽⁸¹⁾”

If a taxable person does not act as importer, it is not eligible to deduct VAT on the import of goods.

The Importer (according to the Common Customs Law) is the person eligible to deduct input tax charged on imports. In some cases, the importer may vary according to the records of the person who owns the goods at the time of importation (for example when a broker imports the goods).. In all cases, the person eligible to deduct/recover VAT is the importer or the third party provided that the goods are to be used in the course of taxable activities.

Example (21): A KSA customer acts as the importer of goods owned by a non-resident supplier, to be installed by the non-resident supplier at the business premises of the KSA customer. As the goods are to be used by the KSA customer for the purpose of its economic activities, and it acts as importer, it is eligible to deduct VAT paid on imports if the other criteria are met.

Example (22): An KSA resident individual appoints a customs broker to carry out import formalities for an expensive vehicle, using the broker’s licence. The broker pays the cost and passes this to the KSA resident as a disbursement, together with the fee for his brokerage services. The imported vehicle is not used by the broker as part of its economic activities. The broker is not able to deduct the input VAT.

(81) Article 48, Conditions for Exercising the Right of Deduction, Unified VAT Agreement

10.4. Deduction of VAT paid under reverse charge mechanism

VAT deduction is available for the VAT paid by a taxable person under the reverse charge mechanism, provided that the goods or services received are for the purpose of the taxable person's economic activities in the course of making taxable supplies.

The reporting of the reverse charged VAT is a condition for the corresponding deduction. The reporting of output tax and input tax is – under standard cases – reported on the same VAT return (Box 9).

Section 6.3 provides an example of VAT reporting in cases where self-accounted VAT is not deductible in full.

The supplier does not issue an invoice including KSA VAT for the goods or services which are subject to the reverse charge mechanism⁽⁸²⁾.

Therefore, the recipient of the supply will not hold a valid tax invoice from the supplier in respect of the VAT charged. GAZT accepts that acceptable evidence of the VAT payable in this case will be the non-resident supplier's commercial invoice evidencing the VAT payment.

10.5. Deduction relating to zero-rated exports

VAT is deductible for KSA VAT charged on the supply of goods or services used in the course of making zero-rated export supplies (export).

In most cases, a taxable person who predominantly carries on export activities will have Input VAT exceeding Output VAT, and will be eligible for refund of VAT on a regular basis.

A refund of the excess balance of VAT repayable (credit balance) may be claimed upon filing of the VAT return⁽⁸³⁾.

(82) Article 44(3), Tax Deduction Principle, Unified VAT Agreement

(83) Article 69, Refund of overpaid Tax, Implementing Regulations

11. Obligations of the taxable person

In your capacity as a taxable person, you must evaluate your tax obligation and also comply with the conditions and obligations relating to VAT. This includes registering for VAT as necessary, and exactly calculating the net amount of VAT payable, and paying the tax at the time due, as well as keeping all necessary records and cooperating with officials of the Authority on demand.

If you are not sure of your obligations, you must contact the Authority through its website at vat.gov.sa or by other means of communication, and you may also seek external consultation through a qualified consultant. There follows below a review of the most important tax obligations provided for in the Law and the Implementing Regulations.

11.1. Issuing invoices

A supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any other legal person, or issue a simplified invoice in the event that the value of the supply is less than SAR 1,000, or for supplies made to the end consumer, by no later than fifteen days following the end of the month in which the supply is made.

The tax invoice must clearly detail information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged⁽⁸⁴⁾. If different rates have been applied to supplies, the value of each supplies at each rate must be separately specified, as well as the VAT applicable to each rate. A tax invoice may be issued in the form of a commercial document (such as a ticket receipt), provided that that document contains all of the requirements for the issuing of tax invoices as set out in the Implementing Regulations to the Law⁽⁸⁵⁾.

An invoice is not required to be issued by the recipient of a supply of services subject to the reverse charge mechanism. However, the non-resident supplier's invoice should be maintained with the business records.

Further information on the requirements for tax invoicing can be found in the VAT manual or at vat.gov.sa.

11.2. Filing VAT Returns

Each VAT registered person, or the person authorised to act on his behalf, must file a VAT return with GAZT for each monthly or quarterly tax period (as appropriate). The VAT return is considered the taxable person's self-assessment of tax due for that period.

Monthly VAT periods are mandatory for taxable persons with annual revenues exceeding SAR 40 million. For all other VAT registered persons, the standard tax period is three months.

The VAT return must be filed, and the corresponding payment of net tax due made, no later than the last day of the month following the end of the tax period to which the VAT return relates.

More information on filing of VAT returns is provided in a separate guideline.

(84) Article 53, Tax Invoices, Implementing Regulations

(85) Article 53, Tax Invoices, Implementing Regulations

If the VAT return results in VAT due to the taxpayer, or if the taxpayer has a credit balance for any reason a request for a refund of this VAT may be made after the filing of the VAT return, or at any later time during the next five years by filing a request for a refund to the Authority. GAZT will review these requests and will pay the amount due on refund requests that have been approved, directly to the taxpayer⁽⁸⁶⁾.

11.3. Keeping records

All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable on a transaction and in a VAT return. This will generally include:

- tax invoices issued and received;
- books and accounting documents;
- contracts or agreements for large sales and purchases;
- bank statements and other financial records;
- import, export and shipment documents; and
- other records relating to the calculation of VAT

Records may be kept in physical copy, or in some cases electronically where the conditions specified in Regulations are met.

These records must be made available to GAZT on request. All records must be kept for at least the standard retention period of 6 years. That minimum period for retention is extended to 11 years in connection with invoices and records relating to movable capital assets, and 15 years in connection with invoices and records relating to non-movable capital assets⁽⁸⁷⁾.

11.4. Certificate of registration within the VAT system

A resident person who is subject to VAT and registered with the Authority in the VAT system must display a certificate to the effect that he has been registered in the VAT system in a place visible to the public at his main place of business and at all his branches.

In the event of a contravention, the person in breach will be liable to the penalties provided for in the Law.

11.5. Correcting past errors

If a taxable person becomes aware of an error or an incorrect amount in a filed VAT Return, or of any other non-compliance with the VAT obligation, he should notify GAZT and correct the error by amending VAT the tax return. Errors resulting in a net understatement of VAT (exceeding SAR 5,000) must be made known to GAZT within twenty (20) days of detecting the error or incorrect amount, and the previous return must be amended. In connection with minor errors resulting in a difference of less than SAR 5,000, the error may be corrected by amending the net tax in the subsequent tax return⁽⁸⁸⁾.

Further information on correcting errors can be found through vat.gov.sa.

(86) Article 69, Refund of overpaid Tax, Implementing Regulations

(87) Article 66, Records, Implementing Regulations, and Article 52, Capital Assets, Implementing Regulations

(88) Article 63 [Correction of Returns], Implementing Regulations.

12. Penalties

The Authority may impose penalties or fines on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations.⁽⁸⁹⁾

Description of offence	Associated fine
Submitting false documents with the intent of evading the payment of the VAT due or to reducing its value	<ul style="list-style-type: none"> • At least the amount of the VAT due • Up to three times the value of the goods or services
Moving goods in or out of the Kingdom without paying the VAT due	<ul style="list-style-type: none"> • At least the amount of the VAT due • Up to three times the value of the goods or service
Failure to register for the VAT in the allotted timeframe	SAR 10,000
Filing incorrect tax return, amend a tax return after submission or filing any VAT document with the Authority resulting in a lower amount due	Equal to 50% of the value of the difference between the calculated Tax and Tax due
Failure to file VAT return in time	5%-25% of the VAT in respect of which the return should have been filed
Failure to pay the VAT in time	5% of the VAT due for each month or part thereof
Collecting VAT without being registered	Up to SAR 100,000
Failure to maintain books and records as stipulated in the regulations	Up to SAR 50,000
Preventing GAZT employees from performing their duties	Up to SAR 50,000
Violating of any other provision of the VAT regulations or the VAT law	Up to SAR 50,000

In all cases, if a violation is repeated within three years from the date of issuing the final decision of the penalty, the Authority may double fine for the second offense.

The level of the penalty or fine imposed is set by GAZT with regard to the taxpayer's behaviour and compliance record (including taxpayers meeting their requirements to notify GAZT of any errors and provide co-operation to rectify mistakes).

(89) Chapter Sixteen: Articles (39), (40), (41), (42), (43), (44), (45), and (47), Tax Evasion and Penalties, VAT Law.

13. Applying for the issue of rulings (interpretative decisions)

In the event that you are not sure about the manner of application of VAT to a particular activity or particular transaction that you are doing or intend to do, after referring to the relevant provisions and the relevant guideline, you may submit an application to the Authority to obtain a ruling. The application should set out the full facts relating to the particular activity or particular transaction on which you are asking the Authority to express its view.

Rulings may be in one of the two following forms:

- **Public:** in which event the Authority will publish details of the ruling, but without referring to any private particulars relating to the individual taxpayer, or
- **Private:** in which case the Authority will not publish the ruling.

The ruling may contain all of the information relating to the activity or the transaction in respect of which the ruling is requested, in addition to an explanation concerning the particular area of doubt or uncertainty in the law or the guide that you have looked at. You may choose to describe the alternatives and what you consider to be the correct treatment.

Neither a public nor a private ruling issued by the Authority will be treated as binding on it or upon the taxable person in connection with any transaction that he performs, and it shall not be possible to rely on it in any manner.

The Authority is not obliged to respond to all requests for rulings, and it may review all requests and specify priorities on the basis of certain elements, including:

- The level of information submitted by the taxpayer in the request,
- The potential benefit to taxpayers as a whole on the issuing of a general ruling concerning some transaction or activity,
- Whether there is an existing law or guide dealing with this request.

14. Contacting us

For more information about VAT treatment, kindly visit our website: vat.gov.sa; or contact us on the following number: **19993**

15. Frequently asked questions

(1) My business does not have an import licence. How will VAT apply to goods imported for my business?

VAT will be payable by the person who acts as importer in accordance with Customs Law. This person must determine whether it uses the goods for the purposes of its economic activities and is able to deduct VAT charged on imports as input VAT.

(2) What value is the VAT calculated on for import?

VAT is calculated based on the value determined for Customs purposes. VAT applies to the total value of the goods including the cost of insurance and transport of goods to the Customs entry point, to additional services charged by Saudi Customs, and to any customs or excise duties applied to the goods.

(3) If the Customs declaration is incorrect, how should VAT be amended?

VAT due on the import of goods is collected by, and subject to the jurisdiction of, Saudi Customs. Any amendment to the customs declaration must be managed with Saudi Customs. However, if VAT has been overpaid in error, a deduction for the additional amount assessed and paid to Saudi Customs may be claimed through the VAT return.

(4) Does VAT apply to goods imported for temporary use?

VAT applies to all imports released to free circulation/local consumption, unless the goods are subject to an approved temporary admission procedures from Saudi Customs.

(5) How does the business evidence the VAT paid on import?

Saudi Customs allows access to definitive records of VAT paid on all imports on the taxpayer portal.

(6) Does VAT apply to goods imported for personal use?

Yes, VAT is applied to all imports.

(7) How is VAT charged on goods imported with passengers of international transport?

Passengers carrying commercial goods or personal goods exceeding the thresholds set by Saudi Customs must make a declaration to Saudi Customs at the port, airport or land border.

(8) Is it mandatory for “fully taxable” businesses to report VAT under the reverse charge mechanism if there is no VAT payable?

Yes. All taxable persons, including those fully entitled to deduct VAT, must report VAT due under the reverse charge mechanism on supplies received from non-resident suppliers.

(9) How does a KSA business determine if the reverse charge is due on services from a non-resident supplier, and at what rate?

A recipient of services from a non-resident supplier is liable to determine the nature of the services, the place of supply and VAT rate from the commercial arrangements, and apply VAT under the reverse charge mechanism as appropriate.

(10) If a KSA business sells goods to a KSA customer who intends to later export the goods, can the zero-rate apply?

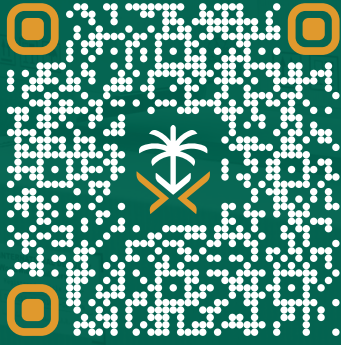
No. The supply from the KSA business to the KSA customer in this case does not anticipate the export of the goods as a consequence of the supply.

(11) Our business has an agreement under which the customer agrees to export the goods. The customer is not able to provide transport documentation to us. Can we apply the zero-rate?

No. If your business does not hold transportation evidence within 90 days of the supply taking place, it must charge VAT on the supply. The VAT charged may be later adjusted once all official documentation is held by the supplier.

(12) What commercial evidence is needed for a transport of the company's goods outside of the GCC?

The transport of goods outside of the GCC without a supply is not subject to VAT, therefore the specific requirements for commercial evidence to apply zero-rating do not apply. The business must however retain usual commercial documents with its records in case of an examination.



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OR PLEASE VISIT OUR WEBSITE:

gazit.gov.sa

