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VAT

# VAT General Guideline

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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 the KSA by Royal Decree No. M/51, dated 3/4/1438 H. Pursuant to the provisions of the Unified VAT Agreement, the KSA issued the VAT Law under Royal Decree No. M/113 dated 2/11/1438 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 14/12/1438 H (the “Implementing Regulations”).

### 1.2. GENERAL AUTHORITY OF ZAKAT AND TAX

GAZT, also referred to as “the Authority” herein, is the authority in charge of the implementation and administration of VAT (which may be referred to hereinafter as “the tax”) 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 noncompliance with legal provisions relating to VAT.

### 1.3. WHAT IS VALUE ADDED TAX?

VAT is an indirect tax which is imposed on the importation and supply of goods and services, 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 registered for VAT will both:

- Collect VAT from their customers equal to a specified percentage of each eligible sale; and
- Pay VAT to their suppliers, if any, from whom they have received the goods or services, equal to a specified percentage of each eligible purchase

When taxable persons sell a good or service, a 5% VAT charge – assuming a standard case – is assessed and added to the final 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**.

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

Further information about VAT can be found at [vat.gov.sa](http://vat.gov.sa).

## 1.4. THIS GUIDELINE

This guideline is addressed to all natural persons and legal persons who carry on an economic activity and who will be required to register for VAT. The purpose of this guideline is to provide information to enable those persons to understand their basic VAT obligations arising from their taxable economic activities, these obligations include for example:

- Registration
- Charging VAT on sales
- Issuing invoices
- Deducting VAT on purchases
- Filing VAT returns and keeping records; and
- Dealing with GAZT, and with suppliers and customers

The guideline also provides detail on specific transactions types which are relevant to many businesses. In addition, other guidelines provide more information on certain industries or transactions which are subject to more detailed rules.

Terms which are specifically defined in law, or other VAT-specific terms used in this guideline (are **underlined** in the text), and set out in the Glossary in section 12.

This guideline represents GAZT's views on the application of the Unified VAT Agreement, the VAT Law and the Implementing Regulations 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 of the Unified VAT Agreement, the VAT Law, or the VAT Implementing Regulations. 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.

However, for further advice on specific transactions you may apply for a ruling or visit the official VAT website (**[vat.gov.sa](http://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, other relevant information, and FAQs.

## 2. ECONOMIC ACTIVITY AND VAT REGISTRATION

### 2.1. MANDATORY REGISTRATION: DO YOU NEED TO REGISTER?

#### 2.1.1. Who carries out an Economic Activity?

To determine whether you are required (or eligible) to register, you must first establish whether you carry on an **Economic Activity**. An Economic Activity may be carried out equally by natural persons (individuals) or legal persons.

It will be presumed by GAZT that a legal person that regularly makes **supplies** of **goods** or **services** carries on an Economic Activity.

Natural persons may perform certain transactions as part of their Economic Activity, or as part of their private activities. There are 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 taxable activities, and pay the tax collected to the Authority.

### 2.2. MANDATORY REGISTRATION FOR KSA RESIDENTS

Registration is mandatory for all persons who are **resident** in the KSA and whose annual taxable turnover exceeds a certain threshold.

If a resident's **taxable supplies** over 12 months exceed SAR 375,000 (the "Mandatory VAT Registration Threshold"), that person must register for VAT. This is subject to the transitional provisions provided for in the Implementing Regulations applying during the 2018 calendar year, which exclude residents with a turnover of less than SAR 1,000,000 from mandatory registration until 2019.<sup>(1)</sup>

### 2.3. CALCULATING THE VALUE OF TAXABLE SUPPLIES

For VAT registration purposes, the total value of Taxable Supplies is calculated across a twelve month period, using either a retrospective or prospective test.

#### Retrospective Test

The value of taxable supplies is total value of supplies made by the Taxable Person **at the end of any month plus the previous eleven months.**

#### Prospective Test

The value of taxable supplies is the total value of supplies **expected to be made** by the Taxable Person **within the following twelve months.**

Most businesses are expected to become required to register on the basis of the retrospective test. The prospective test is intended to apply in cases where turnover is clearly expected to exceed the mandatory registration threshold.

The total value of taxable supplies includes all supplies of goods and services made by the person as supplier, which are subject to a 5% or a 0% rate of tax (where supplied by a VAT registered person).

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

The standard method to calculate the value of a Supply is “the value of Consideration less the Tax”, that is, the VAT-exclusive price paid or payable for the supply.<sup>(2)</sup>

The total value of taxable supplies also includes:

- **Nominal supplies.** A nominal supply does not result from an actual supply of goods or services to another person, but is instead deemed for VAT purposes to be a taxable supply - as a result of an event where a taxable person uses or provides goods or services in a certain way (for example, supplying goods or services for no consideration)<sup>(3)</sup>
- Receipt of **reverse charge supplies.** In cases where a Taxable Person receives a supply of taxable Goods or services in the KSA from a non-resident supplier, that person is deemed to make a supply to himself,<sup>(4)</sup> with VAT due under the Reverse Charge Mechanism
- After a GAZT order announces the full implementation of VAT in the GCC and the introduction of the Electronic Services System, **intra-GCC supplies** made from KSA to a VAT-registered person in another GCC State will not be subject to KSA VAT but will count towards the total value of taxable supplies.<sup>(5)</sup> See Section 9 on international trade for more details

The total value of taxable supplies does 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 the KSA;<sup>(6)</sup> or
- Revenues on sales of **capital assets** – a capital asset is defined as an asset allocated for long-term business use<sup>(7)</sup>

## 2.4. NOTIFICATION AND EFFECTIVE DATE OF REGISTRATION

### 2.4.1. Requirements for notification

All resident persons are required to determine whether they are required to register for VAT and, if so, to notify GAZT accordingly by the time prescribed in law. These requirements can arise under the retrospective or prospective test.

#### Retrospective test

**Notification:** Every Resident Person: “must at the end of each month calculate the value of his Supplies made in the Kingdom within the twelve months then ended...”

In cases where this value **exceeds** the Mandatory Registration Threshold..., the Person **must apply to the Authority to register within 30 days of the end of that month.**<sup>(8)</sup>

**Effective Date:** The registration takes effect from the **start of the next month** following the month in which the registration application is submitted.

(2) The value of a supply is defined in Article 26, Value of Supply of Goods and Services, Unified VAT Agreement. There are special rules in addition to the standard method, both in the aforementioned Article of the Unified VAT Agreement and in Chapter 7, Articles 37-40, Implementing Regulations

(3) A full list of nominal supplies is set out in Article 8, Nominal Supply, Unified VAT Agreement. The categories of nominal supplies are discussed further in section 3.

(4) Article 9, Receiving Goods and Services, Unified VAT Agreement and Article 41, Customer Obligated to Pay Tax According to the Reverse Charge Mechanism, Unified VAT Agreement

(5) Article 52(2), Calculating the Value of Supplies, Unified VAT Agreement

(6) Note exception for intra-GCC supplies as set out at note (5)

(7) Article 1, Definitions, Unified VAT Agreement

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



### Prospective Test

**Notification:** Every resident person: “must at the end of each month estimate the value of his annual Supplies to be made in the next twelve months...”

Where the value of these Supplies **is expected to exceed** the Mandatory Registration Threshold..., the Person **must apply to the Authority for registration within 30 days of the end of that month.**<sup>(9)</sup>

**Effective Date:** from the **start of the first month in which annual Supplies were expected to exceed** the Mandatory Registration Threshold.

#### Example (1) – Retrospective test:

Al Asayel Co. is a KSA resident business carrying on an economic activity. It is not registered for VAT, as its annual turnover has never previously exceeded the Mandatory Registration Threshold.

At the end of March 2021, Al Asayel Co. reviews the total value of taxable supplies made during the period 1 April 2020 – 31 March 2021 of SAR 380,000.

Therefore, Al Asayel Co. must apply for registration within 30 days (by 30 April 2021).

As a result, Al Asayel’s VAT registration takes effect from 1 May 2021.



#### Example (2) – Prospective test:

Al Madar Co. is a KSA resident business carrying on an economic activity since January 2021.

Al Madar Co. quickly wins key sales contracts. At the end of March 2021, Al Madar Co. estimates that the total value of taxable supplies for the period 1 April 2021 – 31 March 2022 is SAR 450,000.

Al Madar Co. must apply for registration – based on the expected turnover in April and the following eleven months – by 30 April 2021 (being 30 days from 31 March 2021)

Therefore, Al Madar’s VAT registration takes effect from 1 April 2021.

(9) Article 4, Mandatory registration - Supplies expected to exceed the Mandatory Registration Threshold, Implementing Regulations



### 2.4.2. Registration as at 1 January 2018

VAT was introduced in the KSA with effect from 1 January 2018. A transitional provision exempted any KSA resident person with taxable turnover of less than SAR 1,000,000 from the requirement to mandatorily register until 1 January 2019. Residents with annual taxable turnover below this figure remained able to consider voluntary registration (as discussed in section 2.5).

Any person whose value of taxable supplies was expected to exceed SAR 1,000,000 in the 2018 calendar year was required to submit an application to register by 20 December 2017. If any business was required to register and has not yet applied for registration, GAZT is still able to accept and process the application.<sup>(10)</sup>

### 2.4.3. Registration as at 1 January 2019

Any person who:

- Has a total value of taxable supplies of less than SAR 1,000,000;
- Has not registered for VAT on a voluntary basis; and
- Whose annual taxable supplies (under the standard test or the prospective test) exceeds the Mandatory Registration Threshold of SAR 375,000,

must apply to GAZT for VAT registration on or before 20 December 2018, to be VAT registered from 1 January 2019.<sup>(11)</sup>

### 2.4.4. Zero rated supplies

If a person's annual value of taxable supplies exceeds the Mandatory Registration Threshold but it **exclusively** makes **zero-rated supplies**, the person is not required to mandatorily register for VAT.<sup>(12)</sup>

A person making use of this exception is not required to notify GAZT. It should however retain evidence of total turnover, and of all of its turnover being zero-rated in nature, with its business records.

Example (3): Ali Hussain is a European law expert who now resides in the KSA. He provides consultancy services to European businesses remotely from his office in Jeddah, which are valued at SAR 500,000 per year but would all be zero-rated exports of services. He has no customers in the GCC and makes no supplies that would be taxable at 5%.

<sup>(10)</sup> Article 79(4), Transitional provisions, Implementing Regulations

<sup>(11)</sup> Article 79(9), Transitional provisions, Implementing Regulations

<sup>(12)</sup> Article 9(1), Registration provisions applying to specific circumstances, Implementing Regulations

Ali is able to voluntarily register for VAT, but he incurs few VAT-inclusive costs and elects to not register his legal consultancy business. He must retain records to evidence his exception from mandatory registration.

#### 2.4.5. Failure to Register

GAZT is working with the competent authorities and businesses to ensure that businesses are aware of their taxable turnover and obligations to register for VAT.

In cases where a person fails to notify GAZT of its requirement to register, GAZT will seek to inform that person of their requirements to register, and how to complete registration.

In cases where the person does not register, GAZT may proceed with VAT registration based on information obtained from competent sources, and notify the person of their Tax Identification Number and effective registration date. The VAT registration will take effect from the relevant date as determined under the retrospective or prospective test.<sup>(13)</sup>

### 2.5. VOLUNTARY REGISTRATION FOR KSA RESIDENTS

Voluntary registration is also possible for KSA resident persons who are not required to register, and who at any time during a twelve month period, have:

- Made a total value of taxable Supplies, or
- Incurred a total value of taxable expenses

which is not less than the “Voluntary VAT Registration Threshold” of SAR 187,500.<sup>(14)</sup> The registration takes effect from the date provided by GAZT in the registration certificate.

Voluntary registration cannot be applied for based on future expected turnover.

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

Example (4): Al Saqr LLC is a KSA company engaged in the construction of a reinforcing steel factory in Riyadh. It plans to start producing and selling steel to customers in January 2020. The company has incurred taxable expenses amounting to SAR 2,000,000 paid to local suppliers during the first quarter of 2018, relating to the purchase of equipment and building expenses.

Al Saqr LLC may elect to register for VAT voluntarily as its annual taxable expenditure exceeds the voluntary registration threshold, and this will allow it to recover VAT incurred on its expenditure from the effective date of registration shown on the VAT registration certificate.

### 2.6. HOW TO REGISTER

Businesses must register for VAT using the application portal which is accessible on GAZT’s website.

The standard VAT registration process identifies the Taxable Person by the general **Tax Identification Number** (“TIN”) issued by GAZT for all taxes. Note that to register for VAT, taxpayers must have a valid TIN.

(13) Article 6, Mandatory registration – other provisions, Implementing Regulations

(14) Article 7, Voluntary registration, Implementing Regulations. Taxable Supplies or taxable expenses are calculated in accordance with the rules applying to the total value of taxable supplies for mandatory registration purposes

If you do not have a TIN, you will be able to register for one on GAZT's website prior to VAT registration. Taxable Persons without a Commercial Registration will need to apply for a TIN under special circumstances.

Upon accessing the VAT application portal, taxpayers will be taken through a five-stage online application. Screenshots of this process are provided in the VAT Manual, available at [vat.gov.sa](http://vat.gov.sa).

For resident taxpayers, the following information will be required for the VAT registration process:

#### **Taxpayer details:**

The second page of the application will prompt users to provide the following information:

- Whether or not the business imports or exports goods or services
- An IBAN number to be associated with the business' VAT account
- The 'VAT Eligibility Commencement date'. This is the date upon which the business exceeded the mandatory registration threshold for VAT determined in accordance with section 2.4 above, or the voluntary registration threshold described in 2.5 above

#### **Financial details:**

On the third page, the business will be asked for financial information, which will be used to assess their eligibility for VAT. This information will include:

- Projected taxable sales for the next year
- Actual taxable sales for the last year
- Projected taxable expenses for the next year
- Actual taxable expenses for the last year

The applicant must then provide an authorized declaration that the application is true and correct.

## **2.7. VAT REGISTRATION CERTIFICATE**

Once the VAT registration is processed and approved, GAZT will issue a VAT registration certificate to the Taxable Person. This certificate will display the name of the Taxable Person, the appropriate VAT Account Number (the TIN for VAT – to be shown on tax invoices), and the effective date of registration. Each certificate also has a unique VAT certificate number. A sample registration certificate is attached below, with the certificate number highlighted.



A resident Person who is subject to VAT and registered with the Authority in the VAT system must display the VAT certificate 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.

GAZT keeps a central register of all Taxable Persons. Customers, or other persons, may check if a provided VAT registration is valid and current by using the VAT lookup tool, available on the “E-Services” section of the GAZT website ([vat.gov.sa](http://vat.gov.sa)). The VAT lookup tool may be searched using the VAT Account Number (TIN), Commercial Registration number, or the VAT certificate number. VAT numbers may also be searched using the dedicated VAT application released by GAZT, available for free download from leading app stores.

## 2.8. SPECIAL CASES

### 2.8.1. Non-residents

The Unified VAT Agreement and the Implementing Regulations set out that certain non-residents are required to apply for registration, if they are obligated to collect and pay VAT on supplies in the KSA:

*“A non-resident of a Member State shall be required to register in that State regardless of his business turnover if he is obliged to pay Tax in that State under this Agreement. Registration can be done directly or through the appointment of a tax representative with the consent of the concerned Tax authority. The tax representative shall take the place of the Non-Resident Person in all its rights and obligations provided for in this Agreement, subject to the provisions of Article 43(2) of this Agreement”<sup>(15)</sup>.*

(15) Article 50(3), Mandatory Registration, Unified VAT Agreement

*“A non-Resident Person who is not registered with the Authority but is obligated to pay Tax on Supplies made or received by that Person in the Kingdom must apply to the Authority for registration within thirty (30) days of the first Supply on which that Person was obligated to pay Tax.”<sup>(16)</sup>*

The requirement to register will not affect all non-Residents supplying goods and services to the KSA, as a non-Resident is only obliged to collect and pay tax in respect of supplies made to non-taxable customers.

A common situation where non-residents will be required to register is where non-residents make electronic supplies of services to KSA consumers. Businesses who provide electronic content and services directly to non-registered customers in the KSA are required to collect the KSA VAT due and comply with KSA VAT obligations. Further details and examples are contained in the Digital Economy guideline.

Example (5): A KSA individual consumer, who is not registered for VAT, uses an Italian web-hosting service to post his travel photography. The web-hosting company charges an annual fee of EUR 150. The non-resident web-hosting company is required to register to charge VAT on the supply to the KSA consumer, regardless of its turnover from KSA sales.

The VAT registration process first requires registration of the Taxable Person with GAZT and the issuance of a TIN.

Non-Residents should appoint a tax representative, approved by GAZT, to act on its behalf in respect of their VAT obligations in the KSA.<sup>(17)</sup>

## 2.8.2. Group registration

A Tax Group is a group of two or more legal persons resident in the Kingdom who are treated as being a single taxable person for VAT purposes<sup>(18)</sup> and registered for VAT with GAZT with a new, separate TIN issued by GAZT.

A set of two or more legal persons with common ownership may choose to register as a group if they meet the criteria below. Groups must apply using GAZT’s electronic application form.

In order for a group to be formed:

- All group members must perform an Economic Activity
- All group members must be legal persons who are residents of the KSA
- All prospective group members must be under common control, meaning that the same entity or individual owns 50% or more of all group members. The common owner does not need to be a member of the group
- At least one group member must independently meet the taxable sales threshold for VAT registration

If the group application is approved, a new TIN will be issued, and the Tax Group status takes effect from the first day of the month following the approval date.<sup>(19)</sup> This status will mean that:

### **The Tax Group is deemed to act as a single taxable person**

All supplies are made by or to the Group (or the representative member of the group), rather than the individual members. All invoices issued by members of the Tax Group should contain the new TIN of the Representative Member.

A combined VAT return will be filed on behalf of the Group, collating all the supplies made to and by the group members.

(16) Article 5, Mandatory Registration of Non-Residents Obligated to Pay Tax in the Kingdom, Implementing Regulations.

(17) Further details are available under the Tax Agents/Representatives section of the website [vat.gov.sa](http://vat.gov.sa)

(18) Article 4, VAT Group, Unified VAT Agreement

(19) Article 11(5), Application to form a Tax Group, Implementing Regulations

**Supplies of goods and services between group members are disregarded for VAT purposes**

As the Tax Group is deemed to act as a single person, it cannot supply to itself for VAT purposes. Therefore, any goods or services supplied from one group member to another is not a supply within the scope of VAT. Supplies made between group members are not reported on the VAT return.

**Each member is jointly liable for VAT debts and obligations of the entire group arising whilst it is part of the group.<sup>(20)</sup>**

**2.8.3. Legal persons with multiple branches, Commercial Registrations or establishments**

A company or other legal person may have multiple branches, Commercial Registrations (CRs) or fixed establishments (including establishments in countries outside of the KSA).

In all cases, the branches of a legal person are part of a single taxable person for VAT purposes. Only one VAT account number will be issued to a legal person. If a legal entity has multiple Commercial Registrations, the main CR of the entity should be used for the purposes of VAT registration. The VAT account number will apply to all CRs of that legal entity.

Where a legal entity has multiple establishments in different countries, the VAT paid or collected on each transaction should be accounted for as pertaining to the country most closely associated to the transaction as set out within the relevant VAT legislation.

Example (6): A KSA-headquartered manufacturer has factories in both KSA and the UAE. If the manufacturer fulfills a purchase order for a customer in Europe from its factory in the UAE, the sale should be noted on its UAE VAT return, rather than its return in KSA.

No supply takes place if goods or services are “provided” from one branch, CR or establishment of a legal person to another part of that same legal entity.<sup>(21)</sup> Similarly, charges within the same legal entity are not, in principle, subject to VAT.

**2.9. DEREGISTRATION****2.9.1. Mandatory deregistration**

A Taxable Person must apply to deregister in the following circumstances prescribed by the Unified VAT Agreement:

- a) cessation of carrying on of the Economic Activity;
- b) cessation of making Taxable Supplies;
- c) if the value of the Taxable Person’s supplies falls below the Voluntary Registration Threshold...<sup>(22)</sup>

For the application of (c) in the KSA, the Implementing Regulations set out three tests to qualify that the value of supplies falls below the threshold, based on turnover in the past two years and expected for the future year.<sup>(23)</sup>

(20) Article 12(6), Amendments to or disbanding of a Tax Group, Implementing Regulations

(21) Article 18(1), Supplies by a legal Person to itself, Implementing Regulations, with the exception of Nominal Supplies, imports of goods or the movement of goods to another GCC State (Article 6, Transporting Goods from One Member State to Another, Unified VAT Agreement)

(22) Article 54, Deregistration, Unified VAT Agreement

(23) Article 13(3), Deregistration, Implementing Regulations

A Person must file an application within 30 days of any of the above events occurring. A Person who has been registered for less than twelve months cannot make an application until twelve months have passed since the registration date. In all cases, cancellation of the registration takes place on the date determined by GAZT after its approval of deregistration.<sup>(24)</sup> This date can be retrospective to reflect the date that the relevant circumstance caused the requirement to deregister.

Example (7): ABC Co, a KSA trading company, loses its trade license and immediately ceases to trade on 31 March 2020. It files a deregistration request to GAZT on 25 April 2020, and GAZT approves and sends confirmation to the taxpayer on 2 May 2020. The mandatory deregistration takes place with effect from the date that trade ceased on 31 March, although it is not formally approved and confirmed by GAZT until a later date.

### 2.9.2. Optional deregistration

A Taxable Person who is registered on a voluntary basis – a Resident whose annual taxable turnover does not exceed the mandatory registration threshold of SAR 375,000 – may also elect to deregister.<sup>(25)</sup> An optional deregistration may not be made within twelve months of the original registration date.

An application for optional deregistration takes place on the date determined by GAZT once the application is approved.

### 2.9.3. Process

An application for deregistration is filed online under the taxpayer portal. Before approving the deregistration, GAZT may request documentation to evidence that the Economic Activity has ceased or to evidence the value of Taxable Supplies made or expected to be made.

The Taxable Person who is deregistered remains liable for completion of all VAT obligations relating to the period during which he was registered, including issue of tax invoices, filing of tax returns and making of all payments due to the Authority. The Taxable Person must retain all relevant records for the required time period.

The final tax return, which includes the date of deregistration, must include all supplies made upon deregistration, including a nominal supply for tangible business assets held on deregistration. The nominal supply is calculated based on the fair market value of the assets at the deregistration date.<sup>(26)</sup>

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(24) Article 13(7), Deregistration, Implementing Regulations

(25) Article 13(6), Deregistration, Implementing Regulations. Neither the turnover for the past twelve months, nor the expected turnover for that month and the eleven months following, may exceed the Mandatory Registration Threshold.

(26) Article 15(7), Nominal supplies, Implementing Regulations



## 3. CHARGING VAT

### 3.1. WHEN DO YOU NEED TO CHARGE VAT?

VAT is most commonly charged in cases where a VAT-registered business sells “taxable” goods or services in the KSA. The Unified VAT Agreement describes this as “Taxable Supplies by a Taxable Person in the Member State Territory”<sup>(27)</sup>. This section of the guideline analyses this legal provision in more detail.

#### 3.1.1. Who is a Taxable Person?

In the KSA, a Taxable Person is any natural person or legal person who carries on an economic activity and who is registered for VAT in the KSA, or is required to be registered for VAT in the KSA.<sup>(28)</sup> These concepts are explored in section 2 of this guideline.

If you are not registered for VAT, but your annual turnover exceeds the Mandatory Registration threshold, you will still be considered a Taxable Person – and required under law to register and will be liable for VAT on supplies during the entire period you have been required to register.

#### 3.1.2. What is a Supply?

The concept of a supply is very broad for VAT purposes, being: “Any form of supply of Goods or Services for consideration...”.<sup>(29)</sup> Goods are any material or tangible assets, and a supply of Services is any supply which is not a supply of goods<sup>(30)</sup> (including intangible assets). Most business transactions involve the provision of either goods or services (or both) from a supplier to a customer, and it should be presumed (unless clearly evidenced that no goods or services are supplied, refer to section 3.5 for more details) that any transaction for consideration involves a supply of goods or services.

**Consideration** is defined as “everything collected or to be collected by the Taxable Supplier from the Customer or a third party for the Supply of Goods or Services, inclusive of the VAT”<sup>(31)</sup>. Consideration will in most cases be monetary (in Saudi riyals or any other currency). However, if no money is provided, non-monetary consideration is often provided (for example, a transaction involving a “barter” or exchange of goods or services, or a right or undertaking being provided to the Supplier in exchange for the underlying Goods or Services).

In cases where there is truly no consideration provided, there is no supply to the customer for VAT purposes, but a nominal supply (see section 3.3 below) will in many cases be deemed to occur.

#### 3.1.3. What is a Taxable Supply?

Taxable supplies are defined as “Supplies on which Tax is charged in accordance with the provisions of the Agreement, whether at the standard rate or zero-rate...”

VAT is charged on almost all types of supply, with most being subject to the standard 5% rate. The table below sets out the predominant categories of supplies in the KSA where VAT is charged or not charged, and reference to other guidelines with further information on these types of supplies.

(27) Article 2, Scope of Tax, Unified VAT Agreement

(28) Article 2, Taxable Persons required or eligible to register in the Kingdom, Implementing Regulations

(29) Article 1, Definitions, Unified VAT Agreement

(30) Article 7, Supply of Services, Unified VAT Agreement

(31) Article 1, Definitions, Unified VAT Agreement

Supplies on which VAT is Charged	Supplies on which no VAT is charged
Standard (5%) rate applicable – all supplies unless otherwise stated	Supplies not carried out as part of an Economic Activity (refer to Economic Activity guideline for more details)
<p><b>Zero (0%) rate applicable –</b></p> <ul style="list-style-type: none"> <li>• Exports of goods</li> <li>• Services supplied to non-GCC residents<sup>(32)</sup> (refer to Import and Export guideline for details)</li> <li>• International goods and passenger transport services</li> <li>• Supply of Qualifying means of transport (refer to Transportation guideline for details)</li> <li>• Qualifying medicines and qualifying Medical Goods (refer to Healthcare guideline for details)</li> <li>• The first supply, or supply for investment, of Qualifying Metals (gold, silver or platinum) (refer to Investment Metals guideline for details)</li> </ul>	<p><b>VAT exempt supplies –</b></p> <ul style="list-style-type: none"> <li>• Financial services, where Consideration is charged as an implicit margin</li> <li>• The issue or transfer of a debt security or equity security</li> <li>• The issue of life insurance policy (refer to Financial Services guideline for details)</li> <li>• Rental of qualifying residential Real Estate (refer to Real Estate guideline for more details)</li> </ul>
Supplies of Eligible Used Goods (where VAT is calculated using the profit margin) <sup>(33)</sup>	The issue or supply of a qualifying voucher <sup>(35)</sup> (refer to section 10 of this guideline for details)
Qualifying supplies of healthcare, education and first homes to citizens – are subject to VAT, but VAT is borne by the State instead of being charged to the customer <sup>(34)</sup>	<ul style="list-style-type: none"> <li>• Supplies of goods and services from one member of a VAT group to another, or goods and services provided by a legal person to itself<sup>(36)</sup></li> <li>• The supply of goods and services which together constitute a business (an Economic Activity capable of operating in its own right), provided the conditions specified in the Implementing Regulations are met</li> <li>• Supplies made by a branch of a Taxable Person in a country outside of the GCC</li> <li>• Payment of compensation which does not relate to any supply of Goods or services</li> </ul>

(32) Including services provided to residents of a GCC State during the transitional period

(33) Article 48, Supply of used Goods, Implementing Regulations

(34) In accordance with the Royal Decree No. (A / 86) dated 18/4/1439 AH

(35) Other than the supply of a face value voucher for a consideration exceeding the face value. Article 19, Issue or Supply of a Voucher, Implementing Regulations

(36) Article 18, Supplies by a legal Person to itself, Implementing Regulations

### 3.1.4. Which supplies are made in the KSA for VAT purposes?

The country a supply takes place in is determined in accordance with place of supply rules set out in the Unified VAT Agreement.

#### Place of supply of goods

The place of a supply of goods depends on the physical location of the goods at a defined time.

- If a Supply of Goods occurs without transportation or dispatch of those goods, the place of supply is where the Goods are located on the date they are placed at the Customer's disposal
- If a Supply of Goods occurs with transportation or dispatch of those goods by the Supplier or to the account of Customer, the place of supply is where the Goods are located when the transportation or dispatch commences

There are exceptions to this rule for intra-GCC supplies (applying after the full introduction of VAT across the GCC and the announcement of the Electronic Services System), and for supplies of gas, oil, water through a pipeline distribution system or electricity.<sup>(37)</sup>

#### Place of supply of services

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."*<sup>(38)</sup>

There are exceptions to this default for intra-GCC supplies made to taxable customers (applying after the full introduction of VAT across the GCC and the announcement of the Electronic Services System)<sup>(39)</sup>, and for **special cases** – being certain types of services.

Special rules apply to specific categories of services (defined as Special Cases) outlined in the Unified VAT Agreement, including the five common categories below.<sup>(40)</sup>

1. Supply of Goods and Passenger Transportation Services:<sup>(41)</sup> 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:<sup>(42)</sup> 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. See the Real Estate guideline for further detail.
3. Telecommunications services and electronically supplied services:<sup>(43)</sup> 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:<sup>(44)</sup> the place of supply of these services is in the place of actual performance.
5. Cultural, artistic, sport, educational and recreational Services:<sup>(45)</sup> the place of supply of these services is in the place of actual performance,<sup>(46)</sup> when they are charged for as admission to an event at a physical location, or educational services provided in a physical location.

(37) Article 14, Supplies of Gas, Oil, Water and Electricity, Unified VAT Agreement

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

(39) Article 79(6)(7) and (8), Transitional provisions, Implementing Regulations

(40) 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

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

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

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

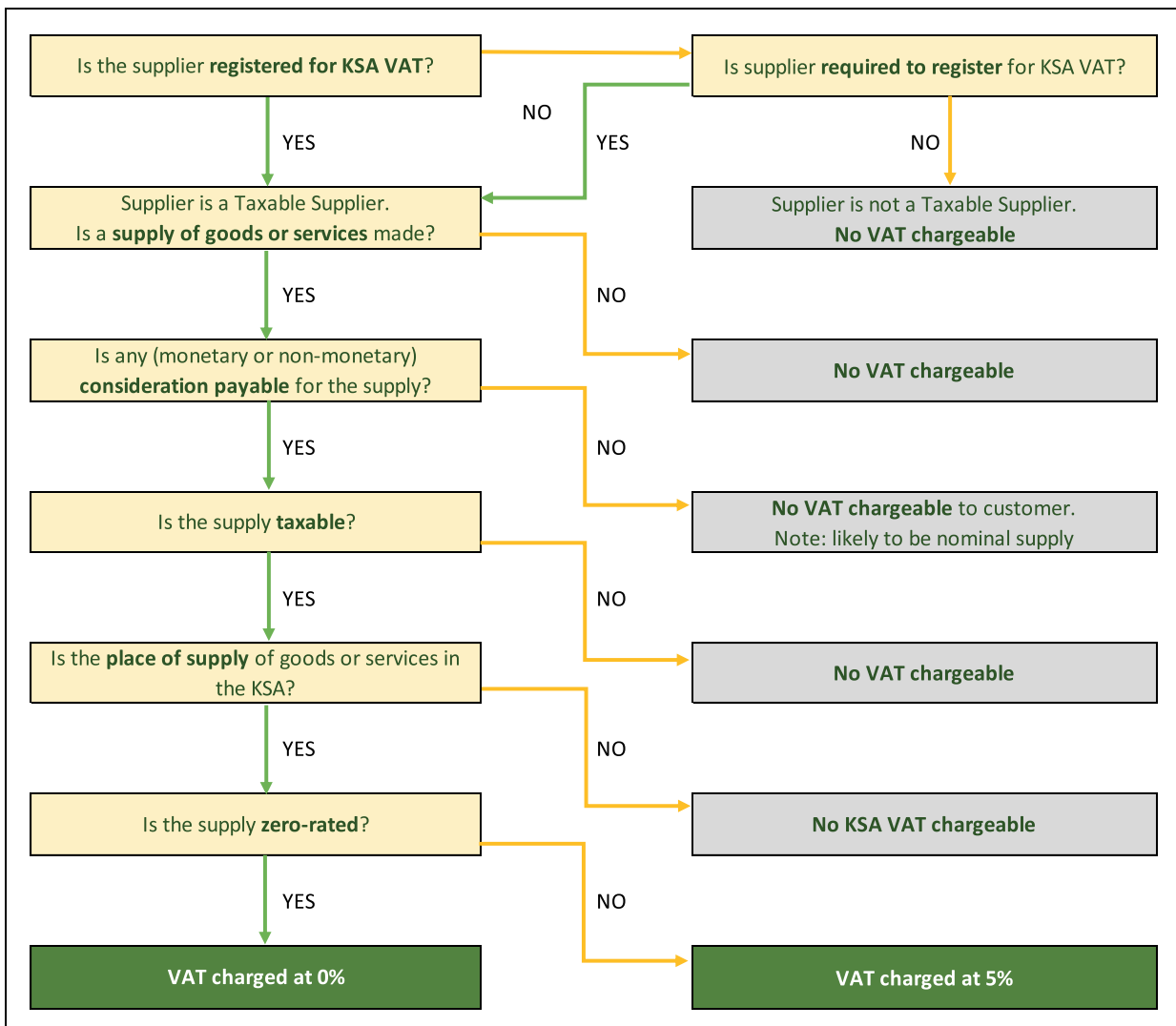
(44) Article 21, Supply of Other Services, Unified VAT Agreement

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

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

### 3.1.5. VAT charging flowchart

This flowchart provides a pictorial representation to help readers analyse whether transactions should be subject to VAT. It does not attempt to give comprehensive coverage of all situations and should be used together with reference to the law and guidance.



## 3.2. CALCULATING VAT

### 3.2.1. Applying VAT to a VAT-exclusive value

If VAT is applied at the standard rate, it is calculated as 5% of the value of the supply, where the value of the supply is the VAT exclusive price (including the VAT exclusive portion of any non-monetary consideration).

$$\text{VAT amount} = \text{Value of supply} \times 5\% \\ \text{(VAT exclusive price)}$$

If the sale price is agreed to be VAT exclusive, VAT of 5% should be added to the agreed price to calculate the total consideration payable.

$$\text{Consideration payable} = \text{Value of supply} \times 105\%$$

(VAT inclusive price) (VAT exclusive price)

Example (8): ABC Ltd, a KSA trading company, charges Al Salam Co a VAT-exclusive price of SAR 6,400 for a delivery of office equipment. The VAT amount is calculated as 5% of SAR 6,400, or SAR 320. The total price payable (Consideration) is the value plus the tax (or 105% of the VAT exclusive price), being SAR 6,720.

### 3.2.2. Calculating VAT from a VAT-inclusive consideration

A supplier may also set a VAT-inclusive price or consideration due for a supply. In these cases, the VAT amount can be calculated by using the VAT fraction of (5/105).<sup>(47)</sup>

$$\text{VAT amount} = \text{Consideration payable} \times 5/105$$

(VAT inclusive price)

$$\text{Value of supply} = \text{Consideration payable} \times 100 / 105$$

(VAT-exclusive price) (VAT inclusive price)

If the total VAT amount or the total taxable amount calculated for a supply equates to a figure that includes a fraction of a halala, the VAT amount on the Tax Invoice should be rounded to the nearest halala.

Example (9): Ali Transportation Co charges a fixed VAT-inclusive price of SAR 1,320 to business customers for operating a minivan from Riyadh to Jeddah. It calculates the VAT payable as 5/105 of 1,320, (which equals SAR 62.857). The Tax Invoice showing the VAT amount must show VAT of SAR 62.86.

For zero-rated supplies, the VAT amount is zero in all cases. On exempt supplies, no VAT is chargeable (for the purposes of issuing invoices, they may display a VAT amount of zero, but any Tax Invoice should include a reference that the supply is in fact exempt).

If separate supplies of standard-rated, zero-rated and/or exempt supplies are included on the same invoice, VAT should be calculated based on the value of standard rated supplies only.

## 3.3. WHEN DOES THE VAT CHARGE ARISE?

Each Tax Invoice for a Taxable Supply must show the **date the supply takes place** (also referred to as the “date of supply” for VAT purposes). This is the date upon which the VAT for that supply “becomes due”, determined in accordance with The Unified VAT Agreement:

*“Tax becomes due on the date of the supply of Goods or Services, the date of issuance of the tax invoice or upon partial or full receipt of the Consideration, whichever comes first, and to the extent of the received amount.”<sup>(48)</sup>*

The date the supply takes place determines in which Tax Period the supply is reported. Whilst each supply has a separate date of tax becoming due, the payment of VAT by the Supplier to GAZT is only required when the VAT return is filed (and the corresponding Net Tax for that entire tax period is due for payment).

(47) Article 45(2), Calculation of Tax, Implementing Regulations

(48) Article 23, Date of Tax Due on Supplies of Goods and Services, Unified VAT Agreement

### 3.3.1. Actual date of supply and earlier dates of supply

The actual date of supply of the Goods or services is, in standard cases, the date of delivery of the Goods or performance of the services. However, specific date of supply rules are prescribed in the Unified VAT Agreement and Implementing Regulations.<sup>(49)</sup>

The date the supply takes place may be earlier than the actual date of supply, in cases where a tax invoice is issued or payment is received before the actual date of supply.

<b>If a Tax Invoice is issued before the actual date of supply:</b>	The Supplier must comply with VAT obligations based on the date of issue of the Tax Invoice. VAT must be reported as Output Tax in the Tax Period in which the Tax Invoice is issued (even if payment has not been received or the actual supply has not taken place).
<b>If an advance payment is made before the actual date of supply:</b>	The supply is deemed to take place on the date of payment (in cases of part-payment, the supply takes place for the portion of consideration paid). The Supplier must issue a Tax Invoice within fifteen days from the end of the month in which the advance payment was made for the portion of the consideration received.

### 3.3.2. Continuous supplies

A **Continuous supply** of goods or services involves the provision of goods or performance of services continuously across a defined period. Examples of continuous supplies include the rental of equipment, the provision of electricity or water by a utilities company, or the ongoing membership of a gym.

Continuous supplies of goods or services take place on the earlier of the date a Tax Invoice is issued or payment is made in respect of those Goods or services, to the extent of the amount invoiced or paid.<sup>(50)</sup> Note that different date of supply rules apply for Continuous supplies of goods or services involving the payment of consideration by instalments.<sup>(51)</sup>

Unless an advance payment is received, the date of issue of the Tax Invoice for continuous supplies will be the date of supply. If an advance payment is received, the earlier date of supply should be shown on the Tax Invoice.

Example (10): Al Nakheel Security Services Company provides ongoing remote security services for its customer, Al Saleh Factories. It issues an invoice at the completion of every month to reflect the services received in the previous month.

During the month of October, the total value of services provided was SAR 200 (plus SAR 10 of VAT). The Tax Invoice is issued by Al Nakheel on 4 November, and requires Customer payment by 10 November. The date of supply for VAT reporting purposes is 4 November and it will be included as part of Al Nakheel's November VAT return.

In the event that no payment is received - nor any invoice is issued - in respect of a continuous supply, the supply is deemed to take place on the date falling twelve months after:

- The date the supply commenced; or
- The date the last invoice was issued or payment received;

whichever of those dates is later.

(49) Article 23, Date of Tax Due on Supplies of Goods and Services, Unified VAT Agreement and Article 20, Date of Supply in specific circumstances, Implementing Regulations

(50) Article 20(2) and 20(3), Date of Supply in specific circumstances, Implementing Regulations; subject to specific rules applying in the event that no payment has been received or invoice issued within twelve months

(51) Article 20(1), Date of Supply in specific circumstances, Implementing Regulations

Example (11): Al Bahr Holding Company operates the head office building in Dammam for all businesses in the family group. It enters into an agreement on 1 January 2019 to charge a fee to each of the group companies for the operation of the head offices. A partly-owned group company, Wahid Logistics agrees to pay a fee amounting to SAR 2,000 per month, but without any set instalment dates for payment. This agreement is for a continuous supply of services.

Al Bahr Holding Company issues an invoice on 31 December 2019, for the fee covering the twelve months to December 2019. Wahid Logistics is not part of a VAT group with Al Bahr Holding Company, so the fee amounts to SAR 24,000 plus VAT of SAR 1,200. Wahid Logistics pays this in January 2020 – but the date of supply for VAT purposes is on 31 December 2019, due to the fact the invoice was issued first.

Al Bahr neglects to issue an invoice to Wahid Logistics during the 2020 calendar year. As twelve months has passed since the previous date of supply was created (from the issue of the previous tax invoice), a subsequent date of supply is created on 31 December 2020, for the continuous supplies provided during 2020 (since the previous invoice).

Al Bahr must:

- Report Output Tax in its VAT return for December 2020, and
- Issue a tax invoice showing the deemed date of supply of 31 December 2020. This tax invoice must be raised by 15 January 2021 (being 15 days since the end of the month containing the date of supply).

### 3.4. IMPORTS AND RECEIPTS OF GOODS AND SERVICES

In addition to Taxable Supplies made by Taxable Persons, the Unified VAT Agreement requires that VAT is charged on the:

- "Receipt by a Taxable Customer of Goods or Services supplied to him by a Non-Resident and non-Taxable Person in the Member State in instances where Reverse Tax Mechanism applies
- Importation of Goods by any Person"<sup>(52)</sup>

The Reverse Charge Mechanism applies in cases where a Taxable Person receives a supply of Goods or services which are supplied in the KSA under the place of supply rules from a non-resident supplier (not including imports of goods). In these cases, that person receiving goods or services is deemed to make a supply to himself,<sup>(53)</sup> with VAT due under the Reverse Charge Mechanism. If the goods or services are taxable (see the chart in 3.1.3), VAT is applied to the value at the applicable rate – usually 5%.

**Imports of goods** are the entry of goods into the KSA from outside the GCC (transitionally, from any place outside the KSA – until full introduction of VAT across the GCC States). VAT is collected by Saudi Customs, and not by the Supplier or Customer. See section 9 of this guideline for more details.

### 3.5. INCOME WHICH IS NOT SUBJECT TO VAT

In most cases, income derived in a business context will be consideration for, or otherwise relate to, a supply of goods or services. However, there are some cases in which there is genuinely no supply of goods or services in relation to income received. A taxable person should review any such income carefully to determine if goods and services of any type were or may be received, and should hold records on file to evidence this in the case of an audit.

Examples of cases where the receipt of income may not relate to a supply include:

(52) Article 2, Scope of Tax, Unified VAT Agreement

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

- Dividend income – the receipt of income for the passive holding of shares does not usually relate to a supply
- Freely given gifts – a tangible or monetary gift may be given, for example, in the context of a business promotion. If no goods or services have been provided in return, then the recipient of the gift does not make a supply
- True compensation payments – in some cases, a payment made to compensate for loss can be received without making a supply of goods or services. In practice, a recipient may agree to do something in relation to the receipt of payment “compensation” or “penalties” (for example, provide goods or services for an additional period, or allow a customer to terminate a contract early). If something is provided in respect of the compensation or similar amount received, this is a supply of services by the payment recipient
- Wages, salary or other payments received under a contract of employment. The employee’s services to its employer are specifically excluded from the concept of Economic Activity<sup>(54)</sup>

### 3.6. Nominal supplies

In addition to supplies of goods or services made for consideration, the VAT law deems some events, which do not involve supplies to third parties for consideration, to be supplies for VAT purposes. These are called nominal supplies, and are outlined in the Unified VAT Agreement.<sup>(55)</sup>

Nominal supplies include the following situations, provided - in all cases - that attributed input tax has been deducted by the Taxable Person in relation to the goods and services concerned:

(1) “disposal of Goods, for purposes other than Economic Activity, with or without a Consideration;

The key aspect here is that the disposal is made for purposes other than the Economic Activity; e. g. for the private benefit of an employee or business owner. By way of example - an office disposes of a working printer within its economic life and allows any Employee to take this home if they wish. This is a nominal supply. If a taxable person is required to dispose of assets as part of the business activity – e.g. destroying damaged stock, or disposing of unconsumed food, this is not a nominal supply.

(2) changing the use of goods to use for non-taxable supplies

If goods purchased for use in making taxable supplies (and Input Tax is deducted accordingly), and are subsequently permanently allocated to use in making non-taxable supplies, this is a nominal supply. Further information will be provided in a separate guideline on Capital Assets.

(3) retaining Goods after ceasing to carry on an Economic Activity;

This refers to the nominal supply made upon deregistration discussed in section 2.9 of this Guideline.

(4) 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 supply of goods (to a related or non-related person) for no consideration is in most cases considered a nominal supply. However, it is acknowledged that a Taxable Person will supply some small value items as part of its business activities. The KSA specifies that there will be no nominal supply for VAT purposes in cases where:

- **The Fair Market Value**<sup>(56)</sup> of the Goods supplied as gifts or samples without Consideration related to promote its Economic Activity does not exceed two hundred (200) riyals exclusive of VAT per recipient per calendar year; and

(54) Article 9(6), Registration provisions applying to specific circumstances, Implementing Regulations

(55) Article 8, Nominal Supplies, Unified VAT Agreement

(56) Fair Market Value is calculated in accordance with Article 38, Fair Market Value, Implementing Regulations



- The annual value of Supplies of gifts, samples and Goods which a Taxable Person makes without Consideration does not exceed fifty thousand (50,000) riyals in that calendar year based on the Fair Market Value of those gifts, samples and Goods<sup>(57)</sup>

(5) Taxable person's use of goods that form part of his assets for purposes other than those of an Economic Activity;

The use of goods such as capital assets for purposes other than economic activity is a nominal supply of services. By way of example –an earth moving directs some company equipment to be assigned for use at a company director's premises to carry out works on his personal garden for six months. This is a nominal supply of services.

(6) Supplying Services without Consideration."

All distinct supplies of services which are provided without charge (noting also the requirement to deduct input VAT in relation to the supply). By way of example – a hotel stay purchased by a company to provide to a key customer.

Further information on nominal supplies made in connection with promotional offers is provided in section 10 and in a separate guideline on business promotions.

### 3.6.1. Accounting for VAT on a nominal supply

A nominal supply of goods or services which are taxable (in accordance with the chart in section 3.1.3) is a taxable supply.

The value of a nominal supply is the purchase value or cost of the goods or services (if the purchase value or cost cannot be determined, then the fair market value shall apply)<sup>(58)</sup>. VAT is calculated at 5% of this value and is reported as Output Tax in the VAT return (together with the value of the corresponding nominal supply).

A Tax Invoice must be created and retained with the business records for audit purposes, but should not be provided to the customer.

(57) Article 15, Nominal Supplies, Implementing Regulations

(58) Article 26(4), Value of Supply of Goods and Services, Unified VAT Agreement. The fair market value, where applicable, is determined in accordance with Article 38, Fair Market Value, Implementing Regulations

## 4. ISSUING INVOICES

### 4.1. WHEN IS A TAX INVOICE REQUIRED?

Each Taxable Person must issue (or arrange for the issuance of) a “standard” Tax Invoice to another Taxable Person or a non-taxable legal Person in respect of any Taxable Supply of Goods or Services, or any payment made in respect of such a Supply before that Supply takes place.

Where a Taxable Person makes a supply to a non-taxable individual, or in any other cases where a Taxable Person makes a Taxable Supply, a tax invoice meeting at least the minimum criteria of a “simplified” Tax Invoice must be issued.<sup>(59)</sup> A “simplified” Tax Invoice may also be issued instead of a “standard” tax invoice for low value supplies. Section 4.4 sets out more details on simplified invoices.

The below overview provides circumstances when a (standard) Tax Invoice is required:

- Taxable supplies subject to the basic rate valued at SAR 1,000 or more, made to a Taxable Person or non-taxable Legal Person;
- Exports of goods;
- Zero-rated supplies valued at SAR 1,000 or more, made to a Taxable Person or non-taxable Legal Person;
- Intra-GCC supplies after full introduction of GCC VAT system;
- Supplies of Eligible Used Goods charging VAT under the profit margin;
- Nominal supplies (tax invoice is not issued to Customer, but retained for audit purposes).

In the following cases a simplified invoice can be issued:

- Taxable supplies of Goods or services (other than exports of goods) made to a Taxable Person or non-taxable Legal Person, valued at less than SAR 1,000;
- Taxable supplies made to a non-taxable natural person (other than exports of goods)

A tax invoice is not required in respect of any supply which is non-taxable (in accordance with the table in section 3.1.3).

Further, a tax invoice must not in any cases be issued by any person who is not registered for VAT.

For further details with respect to the requirement to issue invoices, including special further notes on special situations, please refer to the Invoicing and Records Guideline.

### 4.2. REQUIREMENTS OF A TAX INVOICE

The Tax Invoice may be issued in a physical (printed) or electronic format. For VAT purposes, there is no requirement that the Tax Invoice be signed, or include an official stamp of the supplier. However, it is recommended and preferable that a printed invoice to include a signature or official stamp.

Each of the required fields of information must be provided in Arabic. The Arabic language information will be viewed as the definitive information on the invoice, with any other language being a translation only. Monetary values on the Tax Invoice may be expressed in any currency. However, the amount of VAT charged must be shown in Saudi riyals. This should be converted using the daily rate prescribed by the Saudi Arabian Monetary Authority on the date the relevant tax becomes due.

<sup>(59)</sup> Article 55, Issuance of the Tax Invoice, Unified VAT Agreement, and Article 53(9), Tax Invoices, Implementing Regulations

A "standard" Tax Invoice should include the following details:<sup>(60)</sup>

- The date of issue, and the date the supply took place (if this is different);
- A sequential number which uniquely identifies the tax invoice;
- The official name, the address of the main business premises or other relevant establishment and the tax identification number of the supplier;
- The name, address and – in case of self-accounting by the customer for VAT – the tax identification number of the customer;
- The quantity and nature of the goods supplied or the scope and nature of the services rendered;
- The VAT-exclusive taxable amount separated per rate and exemption. For supplies of goods sold in quantities or units, the invoice must show the unit price (excluding VAT) and any discounts or rebates (if not included in the unit price);
- The rate(s) of tax applied. This may be the entire invoice value – or if different goods and services have different rates – should be shown on a line-by-line basis. Where tax is not charged at the basic (5%) rate, a narration explaining the tax treatment applied to the supply must be included on the invoice;
- The amount of tax payable, shown in riyals

An example Tax Invoice for a supply of Goods (and associated shipping and handling services) is provided on the next page. As a commercial document, the Tax Invoice can take on different formats. It is not required that Tax Invoices follow this format. For other example tax invoices please refer to the Invoicing and Records Guideline.

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(60) Article 53(5), Tax Invoices, Implementing Regulations

فاتورة ضريبية  
TAX INVOICE (11)

AL SALAM SUPPLIES CO. LTD

شركة السلام للتوريدات المحدودة

(2) Invoice #100  
(1) Invoice Date:6/4/2020  
(7) Date of Supply:6/4/2020  
(4) Supplier:  
Al Salam Supplies Co. LTD  
Prince Sultan bin Abdulaziz Road  
(12) Phone: 221619200  
Email: [info@Al-salam.sa](mailto:info@Al-salam.sa)

(2) رقم الفاتورة: 100  
(1) تاريخ الفاتورة: 2020/4/6  
(7) تاريخ التوريد: 2020/4/6  
(4) المورد:  
شركة السلام للتوريدات المحدودة  
طريق الأمير سلطان بن عبد العزيز – السليمانية  
(12) هاتف: 221619200  
البريد الإلكتروني: [info@Al-salam.sa](mailto:info@Al-salam.sa)

(3) Supplier Tax Identification Number:  
310175397400001  
(5) CUSTOMER:  
AL KAWTHAR MARKETS  
SA'AD BIN ABDELRAHMAN FIRST ROAD

(3) رقم التسجيل الضريبي للمورد:  
310175397400001  
(5) العميل:  
أسواق الكوثر  
طريق سعد بن عبد الرحمن الأول الفرعي

SHIPPING ADDRESS:  
2119 - SA'AD BIN ABDELRAHMAN FIRST ROAD

عنوان الشحن:  
2119 - طريق سعد بن عبد الرحمن الأول الفرعي

(13) OTHER INFORMATION

Purchase Order Number: 2001341  
Payment Due Date: 6/5/2020

(13) معلومات أخرى  
رقم أمر الشراء: 2001341  
تاريخ الاستحقاق: 2020/5/6

(6) NATURE OF GOODS OR SERVICES تفاصيل السلع أو الخدمات	(8) UNIT PRICE سعر الوحدة	(6) QUANTITY الكمية	(8) TAXABLE AMOUNT المبلغ الخاضع للضريبة	(9) TAX RATE نسبة الضريبة	(10) TAX (SAR) الضريبة (ريال سعودي)	TOTAL المجموع
Item A - البند أ	200.00	1	200.00	5%	10.00	210.00
Item B - البند ب	250.00	1	250.00	5%	12.50	262.50
Item C - البند ج	350.00	1	350.00	5%	17.50	367.50
Item D - البند د	50.00	2	100.00	5%	5.00	105.00
Shipping and Handling - شحن وتفريغ			80.00	5%	4.00	84.00

980.00	الإجمالي (باستثناء ضريبة القيمة المضافة)	TOTAL (EXCLUDING VAT)	980.00
49.00	مجموع ضريبة القيمة المضافة (10)	TOTAL VAT (10)	49.00
1,029.00	إجمالي المبلغ المستحق (14)	TOTAL AMOUNT DUE (14)	1,029.00

REQUIRED INVOICE INFORMATION: STANDARD TAX INVOICE

(1) Date of invoice issue	(2) Sequential invoice number
(3) Supplier Tax Identification Number	(4) Supplier name and address
(5) Customer name and address	(6) Description and quantity of goods or services
(7) Date the supply takes place	(8) Taxable amount and unit price
(9) Tax rate	(10) Amount of VAT charged in SAR

OTHER COMMON INVOICE INFORMATION

(11) Document name	(12) Supplier contact information
(13) Other information relating to supply	(14) Total VAT-inclusive amount payable

## 4. 3. SIMPLIFIED TAX INVOICES

### 4.3.1. Circumstances of issuing a simplified tax invoice

A "simplified" Tax Invoice may be issued instead of a "standard" Tax Invoice:

- A Supply of Goods or services valued at less than one thousand (1,000) Saudi Riyals;
- All Supplies made to any person who is a non-taxable natural person (individual)

As an exception to the above, suppliers may not issue simplified tax invoices for exports of goods or any "Internal supplies" of Goods or Services made to businesses registered in other GCC States after the full introduction of the GCC VAT system.

### 4.3.2. Content requirements

A simplified tax invoice must include certain minimum details:

- The date of the invoice being issued;
- The name, address and tax identification number of the supplier;
- Description of goods or services supplied;
- The consideration payable for the goods or services;
- The tax payable or a statement that the consideration is inclusive of tax in respect of the supply of the goods or services

The invoice issuer may choose to include additional information on the simplified Tax Invoice, or to issue an invoice meeting the full conditions of a "standard" Tax Invoice if preferred.

## 4.4. SELF-BILLING

In case certain conditions are met,<sup>(61)</sup> it is possible for the Customer to issue a Tax Invoice (instead of the Supplier) for a supply of goods or services the Supplier makes to him. In these cases, the Supplier remains liable for reporting the Output VAT payable on the Supply.

A self-billed Tax invoice can only be issued in respect of a Taxable Supply by a Taxable Person in case the supplier and customer entered into a specific self-billing agreement and notify GAZT in accordance with the specified procedure. Further information on the requirements for self-billing and the content of the Self-billing agreement are included in the Invoicing and Records Guideline.

## 4.5. THIRD PARTY BILLING

A third party may issue Tax Invoices for Taxable Supplies provided by a Taxable Supplier to their Customer, providing notification is made to GAZT in accordance with the specified procedure. In this case, the third party issues the invoice on behalf of the Taxable Supplier. In most circumstances, the third party will not have any other involvement in the underlying supply of goods or services.

The Supplier shall be responsible for the accuracy of the information shown on the Tax Invoice and for reporting Output Tax on the supply.<sup>(62)</sup>

For further information on the on the conditions for third party billing and the legal consequences of third party billing are included in the Invoicing and Records Guideline.

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(61) Article 58, Special Provisions, Unified VAT Agreement and Article 53(2), Tax Invoices, Implementing Regulations

(62) Article 53(3), Tax Invoices, Implementing Regulations

## 4.6. ELECTRONIC INVOICING

Tax invoices may be issued in a physical format or through electronic transmission of an electronic invoice or “e-invoice”.

An e-invoice can be:

- An electronic file containing an electronic copy of a paper invoice, which resembles a physical invoice when printed, such as a .PDF file; or
- Another form of data file containing the relevant data fields required on the Tax Invoice, designed for automatic transfer between systems, such as a .CSV or .XML file

An electronic copy of an original physical Tax Invoice (such as a scan of a printed invoice) is not an e-invoice. In cases where Taxable Persons issue e-invoices, they must take appropriate steps in order to ensure the authenticity of the origin, integrity of content and legibility of the invoices.

Taxable Persons must transmit invoices in a secure environment, using industry-accepted authenticity and security technologies on the messages themselves and the communication links/networks over which the invoices are transferred.

At present, there are no particular electronic exchange methods that have been prescribed as mandatory for VAT purposes in the KSA. To ensure secure transmission, issuers of e-invoices may consider a qualified electronic signature or Electronic Data Interchange (‘EDI’). Further information on electronic invoicing is included in the Invoicing and Records Guideline

At the time of issue of this guideline, there are no Regulations prescribing mandatory e-invoicing for any particular supplies or suppliers, however further information will be issued if such Regulations are issued in future.

## 5. CLAIMING INPUT VAT ON PURCHASES

### 5.1. Right to deduct Input Tax

A Taxable Person may deduct Input Tax incurred on goods and services it purchases or imports for the purpose of carrying on its economic activity in the course of making Taxable Supplies.<sup>(63)</sup> **The Deductible Tax** is entered on the VAT return and is offset against the VAT charged on supplies (output VAT) made during that period.

In this section, the requirements for Input Tax deduction and other relevant information with respect to Input VAT deduction is included.

#### 5.1.1. VAT must be correctly charged

Only VAT which is correctly charged on a supply of goods or services in the KSA by a VAT-registered supplier is considered to be Input Tax for the Customer of that supply (“tax borne by a taxable Person in relation to goods or services supplied to him...”) and therefore eligible for a deduction.

VAT which is not correctly charged to a Customer is not eligible for an Input Tax deduction.

An amount which is not KSA VAT, but a corresponding VAT charged in another country, is not eligible for Input Tax Deduction in the KSA.

#### 5.1.2. Verifying TIN and tax invoice

The Unified VAT Agreement requires that a Person must hold documents as a condition of Input Tax deduction.

The requirements for Tax Invoices are prescribed in a KSA context by the Implementing Regulations: a document must include a list of criteria and details (described in section 4) in order to be a valid “Tax Invoice”.<sup>(64)</sup> A Customer should hold a valid Tax Invoice in order to deduct KSA VAT charged by suppliers as Input Tax. The Customer should also verify the TIN number of the supplier using the VAT Lookup function made available by GAZT, to ensure that a VAT-registered supplier has charged the VAT to the Customer.

#### 5.1.3. Other Categories of Deductible Tax

In addition to VAT charged by VAT registered suppliers in the KSA, there are two other categories of Input Tax eligible for deduction:

- Self-accounted VAT under the Reverse Charge Mechanism on a supply of goods or services in the KSA; or
- VAT paid to the Customs Department, or reported in the VAT return on imports of goods are in principle also eligible for a VAT deduction for the Customer of that supply.

In case the VAT supply is self-accounted through the Reverse Charge Mechanism by the Customer of the supply, a valid Tax Invoice will in most cases not be issued by the supplier. In order to be eligible for the deduction of Input Tax on such a supply, the KSA Customer should have commercial documents available to evidence the nature of the supply and the consideration payable on the supply, in addition to the corresponding calculation of tax due on the supply.

Example (12): Al Badr Consulting engaged a Japanese legal advisor to provide legal advice for the possible expansion of Al Badr Consulting in Japan. The Japanese legal advisor issued an invoice for the fee of 10,000 USD. This invoice does not charge KSA VAT and will therefore not be a Tax Invoice complying with the invoice requirements included in the KSA VAT legislation. As the document shows the date of supply

(63) Article 46, Proportional Deduction, Unified VAT Agreement

(64) Article 53(5), Tax Invoices, Implementing Regulations

and consideration payable, it can however be used to evidence the calculation of the taxable amount to determine the VAT due on the supply.

Where VAT is payable to Saudi Customs on importation of goods, the importer of record provides its TIN to Saudi Customs with the customs entry. Saudi Customs records the information from the import declaration, and makes available an electronic summary of the VAT paid on imports by that Taxable Person.<sup>(65)</sup> This official record is accepted documentation to evidence the payment of VAT on imports.

#### 5.1.4. Customer's eligibility to deduct

The right of the Customer to deduct is based on goods and services being purchased (or imported) for the purpose of carrying on its economic activity in the course of making Taxable Supplies.

The terms "for the purpose of carrying on the economic activity" and "in the course of making Taxable Supplies" mean that deduction requires supplies purchased to have a sufficient link between these supplies and the onwards supplies of the Taxable Person. However, it is not necessary that goods have a direct link to a specific onwards Taxable Supply to qualify for deduction.

Example (13): Al Saad Co purchases a shipment of 100 electronics products with a purchase price of SAR 1,000 (exclusive of VAT) per unit from a supplier, resulting in a total transaction value of SAR 105,000 (SAR 100,000 for the units and SAR 5,000 VAT). Five of these units will be used as demonstration models in stores, and the remaining 95 units will be held in stock for eventual sale for Customers. It is not known whether any individual item will itself be sold as part of a Taxable Supply. However, the entire shipment is purchased for the purpose of carrying on the economic activity and in the course of making Taxable Supplies. The entire VAT amount of SAR 5,000 is eligible for deduction/recovery.

Example (14): Al Salwa Co, a wholesale distributor, engages a professional training firm to carry out training for all sales staff on the use of a new Customer relationship management system. The training cannot be linked to any individual Taxable Supply made by Al Salwa Co. However, it is clearly incurred for the purpose of carrying on the economic activity and in the course of making Taxable Supplies. VAT is eligible for deduction.

Conversely, VAT incurred on purchases made outside of a Person's Economic Activities, or Input Tax which is related to the taxpayer's VAT exempted activities is not deductible as Input Tax. VAT which relates partly to taxable and exempt activities must be apportioned for deduction purposes. Further information on **proportional VAT deduction** is contained in the guideline on Input Tax Deduction.

	Input Tax relates to the Taxable Person's economic activities	VAT relates to the Taxable Person's non-economic activities	VAT relates partly to economic and partly to non-economic activities
VAT directly attributed to Taxable Person's taxable supplies	Deduct in full	No Deduction	Partial deduction to the extent VAT relates to economic activity and Taxable Supplies
VAT directly attributed to Taxable Person's exempt supplies	No Deduction		
Overheads and all other Input VAT that cannot be directly attributed	Partial deduction based on apportionment		

(65) Article 43, Collection of Tax on imports on entry to the Kingdom, Implementing Regulations



### 5.1.5. Persons “fully entitled” to VAT deduction

Input Tax directly attributable to the categories of Taxable Supplies listed above is fully deductible for a taxpayer. Many Taxable Persons have economic activities which only involve making Taxable Supplies (they make no exempt supplies of any sort, and have no separate, non-economic, activities).

Provided this is the case, these Taxable Persons are entitled to deduct Input Tax in full on all business expenditure (often referred to as “fully taxable”), and are therefore not required to carry out any exercise to calculate proportional deduction of overheads or other non-attributable expenditure (taking into account the non-deduction of the VAT relating to the restricted elements listed in Article 50 of the Implementing Regulations).

Taxable Persons whose activities predominantly involve making Taxable Supplies must take care to identify any exempt supplies or non-economic activity. Taxable Persons who make exempt supplies as part of their economic activity cannot be considered fully eligible to deduct Input Tax, and must assess the entitlement to VAT deduction for all costs based on their use. This is subject to an exception for one-off and incidental taxable supplies<sup>(66)</sup> – further detail and examples are provided in the Input Tax Deduction guideline.

If a taxable person makes predominantly taxable supplies, but has a small amount of exempt income as part of its ongoing economic activities, this may result in a low value adjustment to deductible Input Tax. GAZT accepts that in these cases, if the total non-deductible Input Tax across an entire calendar year is expected to be less than SAR 5,000, this non-deductible Input Tax can be accounted through a one-off adjustment (through field 14 of the VAT return) for to the last tax period of the calendar year instead of in each Tax return during the year.

### 5.1.6. Deduction of general overheads and non-attributable costs

In case a Taxable Person incurs costs that cannot be directly attributed to either their taxable or VAT exempt supplies, these costs are referred to as general overhead costs or non-attributable costs.

The types of non-attributable costs will vary significantly depending on the economic activities carried out. Examples of overhead costs common to most businesses are rental of commercial premises, utilities such as electricity and water, and fees charged for statutory audit.

However, any costs which cannot be attributed to a taxable or exempt activity will in principle be considered non-attributable.

Deduction of VAT charged to a Taxable Person on overhead costs and other non-attributable 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 Taxable Person’s activities. 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. Additional information with respect to the proportional deduction is provided in the Input Tax Deduction Guideline.

### 5.1.7. Timing of Deduction

The standard timing for a Taxable Person (who uses the standard invoice accounting basis to report VAT) to exercise the right to Input Tax deduction is the tax period in which the supply takes place. This is usually the date the goods and or services are received and the Tax Invoice or other documentation is issued to the Taxable Person. Deduction cannot be exercised until the Taxable Person who is the Customer in respect of the supply has a valid Tax Invoice for the supply, which is issued within that tax period (or an earlier tax period). It is not required that any specific onwards supply has been made (of the goods or services purchased) to be able to deduct the Input Tax on the purchase of those goods or services.

(66) Article 51(11), Proportional deduction of Input Tax, Implementing Regulations

A Taxable Person using the cash accounting basis shall only make a deduction of Input Tax in respect of Supplies of Goods and services for which and to the extent that payment has been made.

The Implementing Regulations allow a Taxable Person to deduct Input Tax in a tax period subsequent to that tax period including the date of supply, subject to a statutory limitation of five years following the year in which the supply takes place.

## 5.2. RESTRICTED INPUT TAX

### 5.2.1. Categories of costs restricted for Input Tax deduction

Following KSA VAT legislation, there are three categories of costs for which the related Input Tax is not deductible:

- The Input Tax incurred on Goods or services purchased by a Taxable Person, but used for private (personal) purposes by individuals such as business owners, family of the business owners or employees, is restricted from Input Tax Deduction;
- The Implementing Regulations have determined certain categories of goods and services which are in all cases considered to be received outside the economic activity of a Taxable Person<sup>(67)</sup> and therefore the Input Tax incurred on these goods or services is restricted for Input Tax Deduction;
- Any Input Tax charged on goods which are prohibited for sale under KSA law, or incurred in activities which such involve prohibited goods are not eligible for Input Tax deduction<sup>(68)</sup>

The following categories of goods and services are considered to be received outside the economic activity of a Taxable Person:

- Any form of entertainment, sporting or cultural services;
- Catering services in hotels, restaurants and similar venues;
- The purchase or lease of restricted motor vehicles;
- Repair, alteration, maintenance or similar services on restricted motor vehicles;
- Fuel used in restricted motor vehicles;
- Any other goods and services used for a private or non-business purpose

### 5.2.2. Restricted Motor Vehicles

The purchase of, or expenditure relating to, a Restricted Motor Vehicle is deemed to be incurred outside of the Economic Activity, and is not eligible for deduction. This term is defined in the Implementing Regulations:

“A Restricted Motor Vehicle is any vehicle designed to be used on the road unless the vehicle is either:

- a) used exclusively by the Taxable Person or by its Employees for work purposes, without being made available for any private use,
- b) primarily intended for resale by the Taxable Person or otherwise for use in an Economic Activity supplying that vehicle.”

All vehicles may therefore be viewed as restricted motor vehicles: including cars, vans, and utility vehicles. The key test is whether the vehicle is made available for private use.

GAZT considers that in the context of a vehicle, private use is any use which is not carried out in the Employee’s work duties. If the car is required to be kept at the Employee’s home outside the working hours, then travel to and from the home is not considered private use. There is no specific rule that applies in all cases, each case is considered separately to determine whether the use is private or for economic activity.

(67) Article 50, Goods and Services deemed to be received outside of economic activity, Implementing Regulations

(68) Article 45(2), Restrictions on Input Tax Deductions, Unified VAT Agreement

Incidental use in the course of a trip for work purposes, such as stopping at a restaurant whilst travelling to a customer's premises, is not considered private use. Further detail on restricted motor vehicles is included in the Employee Benefits guideline.

Input tax deduction is available for motor vehicles that are not restricted motor vehicles – being vehicles which are not available for any private use, or vehicles primarily intended for resale or supply by the taxable person.

## 5.3. SPECIAL CASES

### 5.3.1. Adjustments to Input Tax

The right to deduct Input Tax for the Customer of a supply is directly linked to the obligation of the supplier to pay tax due on the supply. Therefore in case of a change to the consideration payable, this change will have an impact on the VAT due on a supply and therefore also on the deductible Input VAT.

The value of a Taxable Supply by a Taxable Person is adjusted where that supply is cancelled or terminated, or where there is a genuine change to the consideration after the supply has taken place or been treated as taking place, in whole or in part.<sup>(69)</sup>

As the value of the supply is adjusted, the corresponding amount of deductible Input Tax related to this supply must also be adjusted. If the supplier has already issued a Tax Invoice for the original consideration due, it will be required to issue a credit note or debit note to reflect the change. In case a Customer, being a Taxable Person, has exercised its right to deduct on the original amount of Input Tax charged, this deduction must be adjusted in accordance with the adjustment to the value of the supply.

A Taxable Person is not required to adjust the Input Tax where the goods of the Taxable Person are lost, damaged or stolen.<sup>(70)</sup>

### 5.3.2. Pre-registration VAT

Under certain conditions, Taxable Persons are entitled to deduct Input Tax incurred (paid) prior to the date of their effective registration for VAT. This applies to goods and services received in order to be used in the course of practicing an economic activity (to the extent that these goods and services constitute taxable supplies, internal supplies, and supplies that would have been taxable had they been made in the Kingdom).<sup>(71)</sup> Pre-registration VAT deduction is subject to other specific conditions and criteria.

Further guidance on the conditions for Taxable persons to deduct Input Tax incurred prior to the VAT registration is included in the Input Tax Deduction Guideline.

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(69) Article 27, Adjustment of Tax Value, Unified VAT Agreement

(70) Article 47 (2), Adjustment of Deductible Input Tax, Unified VAT Agreement

(71) Article 49(1), Input Tax Deduction, Implementing Regulations

## 6. FILING AND RECORDS

### 6.1. 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**. The VAT return is considered the taxable person's self-assessment of tax due for that period.

Monthly tax 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. A separate guideline on VAT Filing provides information on the online submission process, and screenshots.

#### 6.1.1. Guidance on completing each part of the VAT return

An illustrative VAT return form and guidance for each field is included below. Fields 1 through 6 relate to VAT on sales. Fields 7 through 12 to VAT on purchases. Fields 13 through 16 relate to determining the amount of **Net VAT** due as a result of the relevant transactions for the period of the VAT return.

##### ► Illustrative VAT return form

	Amount (SAR)	Adjustment (SAR)	VAT Amount (SAR)
1 Standard rated sales	<input type="text"/>	<input type="text"/>	<input type="text"/>
2 Private Healthcare / Private Education sales to citizens	<input type="text"/>	<input type="text"/>	<input type="text"/>
3 Zero rated domestic sales	<input type="text"/>	<input type="text"/>	<input type="text"/>
4 Exports	<input type="text"/>	<input type="text"/>	<input type="text"/>
5 Exempt sales	<input type="text"/>	<input type="text"/>	<input type="text"/>
6 Total Sales	<input type="text"/>	<input type="text"/>	<input type="text"/>
7 Standard rated domestic purchases	<input type="text"/>	<input type="text"/>	<input type="text"/>
8 Imports subject to VAT paid at customs	<input type="text"/>	<input type="text"/>	<input type="text"/>
9 Imports subject to VAT accounted for through reverse charge mechanism	<input type="text"/>	<input type="text"/>	<input type="text"/>
10 Zero rated purchases	<input type="text"/>	<input type="text"/>	<input type="text"/>
11 Exempt purchases	<input type="text"/>	<input type="text"/>	<input type="text"/>
12 Total purchases	<input type="text"/>	<input type="text"/>	<input type="text"/>
13 Total VAT due for current period	<input type="text"/>	<input type="text"/>	<input type="text"/>
14 Corrections from previous period (between SAR ±5,000)	<input type="text"/>	<input type="text"/>	<input type="text"/>
15 VAT credit carried forward from previous period(s)	<input type="text"/>	<input type="text"/>	<input type="text"/>
16 Net VAT due (or claim)	<input type="text"/>	<input type="text"/>	<input type="text"/>

**Highlighted boxes will update automatically**

**1** Amounts relating to sales and purchases are inputted manually by the taxpayer

**2** Adjustments are typically used if there is a change in circumstances (e.g. goods sold in a previous period were returned in current period)

**3** Corrections – due to errors or omissions from a previous return – can be made in the return form if amount is < 5,000 SAR

**4** If net VAT due is negative, your business may be due a refund

Back Attachments Validate Next

### VAT on Sales

#### 1. Standard rated sales

All supplies of goods and services in the KSA subject to the standard rate of 5%, including any nominal supplies, should be entered in field 1 on the VAT return. In the first column ("Amount") the total amount of sales (excluding VAT) must be entered. Any adjustments to standard rated sales in previous VAT returns must be entered in the second column ("Adjustment"). The third column ("VAT amount") will automatically reflect the VAT amount due for the standard rates sales (taking into account the Adjustments entered) for the period of the VAT return.

## 2. Private Healthcare / Private Education Sales to citizens

Supplies of private healthcare and private education to Saudi citizens<sup>(72)</sup> should be entered in field 2. Transactions related to non-Saudi citizen recipients of these services which are subject to the standard 5% rate are to be entered in field 1 of the VAT return (see above).

In the first column ("Amount") the total amount of sales (excluding VAT) must be entered. Any adjustments to standard rated sales in previous VAT returns must be entered in the second column ("Adjustment"). No VAT will be calculated in the VAT return, as suppliers are required to issue tax invoices to Saudi citizens on the amount due for the sales, but without VAT. The suppliers must also confirm the identity of the recipients of the service and include their national identity information on the issued tax invoices to them.

## 3. Zero rated domestic sales

Zero rated supplies made to KSA customers (not including exports - see chart included in 3.1.3 for examples) should be entered in field 3 of the VAT return.

In the first column ("Amount") the total amount of sales must be entered. Any adjustments to zero rated domestic sales in previous VAT returns must be entered in the second column ("Adjustment"). In all cases, the total VAT in the VAT return will be zero, as the supplies are subject to the zero rate.

## 4. Exports

All Exports of goods, and "exported" services provided to non-GCC residents (including services provided to residents of a GCC State during the transitional period) should be entered in field 4 of the VAT return.

In the first column ("Amount") the total amount of sales must be entered. Any adjustments to exports in previous VAT returns must be entered in the second column ("Adjustment"). In all cases, the total VAT in the VAT return will be zero, as the supplies are subject to the zero rate.

## 5. Exempt sales

All VAT exempt supplies should be entered in field 5 of the VAT return.

In the first column ("Amount") the total amount of sales must be entered. Any adjustments to exempt supplies in previous VAT returns must be entered in the second column ("Adjustment"). No VAT will be calculated in the VAT return, as the supplies are exempt from VAT.

## 6. Total Sales

In field 6, the total amounts of all three columns of fields 1 through 5 will automatically be aggregated to reflect the total amounts of (1.) Supplies, (2.) Adjustments and (3.) VAT charged.

## VAT on Purchases

### 7. Standard rated domestic purchases

The VAT-exclusive amount of all VAT-inclusive purchases on which KSA VAT at the standard rate of 5% is properly incurred from VAT registered suppliers in the KSA, and for which the required evidence is retained, should be entered in field 7 of the VAT return.

Only purchases with VAT applied by the supplier at 5% should be entered in field 7. Zero-rated, exempt or "reverse charged" supplies must be recorded in other fields.

A person making both taxable and exempted supplies, can only deduct the Input VAT related to the taxable supplies, being the:

- VAT incurred on purchases attributed to taxable supplies; plus
- The taxable portion of VAT incurred on overheads using proportional deduction

<sup>(72)</sup> In accordance with the Royal Decree No. (A / 86) dated 18/4/1439 AH. Qualifying sales of first homes must be included as normal in field 1 (rather than field 2), as payment of the VAT is received by the supplier from the Ministry of Housing

In order to correctly reflect VAT deduction for businesses making taxable and exempt supplies, an adjustment must be made in the second column of field 7. This adjustment should be calculated as:

- The VAT-exclusive amount of purchases attributed to exempt or other non-deductible supplies, plus
- The VAT-exclusive amount of the exempt/non-deductible portion of overheads

The amount of deductible VAT for that period is automatically calculated in the third column.

A review of the previous calendar year's proportional deduction is made each year, calculated based on actual taxable and exempt turnover. Any resulting adjustment should also be made by adjusting the corresponding VAT-exclusive amount (in the second column of field 7) in the next tax return.

Additional information with respect to the proportional deduction, and annual adjustments, is provided in the Input Tax Deduction Guideline.

### **8. Imports subject to VAT paid at Customs**

All imports of goods subject to VAT paid at customs are reported in field 8 of the VAT return.

In the first column, the taxpayer enters the total (VAT-exclusive) amount of goods imported from outside the KSA as is evidenced by the appropriate information issued by Saudi Customs, during that filing period.

In cases where the taxable person does not have full right to deduct the import VAT incurred, an adjustment to the value to reflect the non-deductible portion (in the second column) is required as described under field 7. The amount of deductible VAT is automatically calculated in the third column.

### **9. Imports subject to VAT accounted for through reverse charge mechanism**

This field does not relate to Imports of goods, but instead to goods or services received from non-residents (described in section 3.4 of this guide)

VAT deduction is available for the VAT due and reported 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.<sup>(73)</sup>

In standard cases where the VAT is fully deductible, the reporting of the same amount of output tax and input tax takes place in field 9 of the same VAT return by entering the value of the goods and services received in the first column.

If VAT is not fully deductible, an adjustment in the second column must be made to reflect the value of the non-deductible portion (as described under field 7). The amount of non-deductible VAT is automatically calculated in the third column.

### **10. Zero rated purchases**

All purchases subject to the zero rate from suppliers in the KSA should be included in field 10 of the VAT return. In the first column ("Amount") the total amount of purchases must be included. Any adjustments to zero rated purchases in previous VAT returns must be included in the second column ("Adjustment"). In all cases, an amount of zero input VAT will be calculated in the VAT return, as the purchases are subject to the zero rate.

### **11. Exempt purchases**

All exempt purchases from suppliers in the KSA should be entered in field 11 of the VAT return. In the first column ("Amount") the total amount of purchases must be entered. Any adjustments to exempt purchases in previous VAT returns must be entered in the second column ("Adjustment"). No input VAT will be calculated in the VAT return as the purchases are exempt.

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

## 12. Total purchases

In field 12, the total amounts of all three columns of fields 7 through 11 will automatically be added up to reflect the total amounts of (1.) Purchases, (2.) Adjustments and (3.) Deductible Input VAT.

### Determination of Net VAT due (or claim)

## 13. Total VAT due for current period

In field 13, the total VAT due for the current period is automatically calculated (total Output VAT from field 6 less total Deductible Input VAT from field 12).

## 14. Corrections from previous period < 5,000 SAR

Corrections of errors reported in previous tax returns resulting in a net tax difference of less than SAR 5,000 can be manually entered in field 14 of the VAT return. Please note that only the VAT amount can be included (in column 3) of the VAT return.

## 15. VAT credit carried forward from previous period(s)

Field 15 automatically includes the credit in VAT amounts from previous filing periods that were not claimed or refunded. This amount will be deducted from the Net VAT due (field 16) for the current filing period.

## 16. Net VAT due (or claim)

In Field 16 the total amount of VAT due or claimed for the current period is automatically calculated based on the input of all above fields. Any negative amount reflects a VAT claim that may either be refunded or carried forward for subsequent periods.

After submission of the VAT return, the taxpayer receives the following correspondence:

- Return submission acknowledgement;
- Submitted return form; and
- Billing notification.

### 6.1.2. Alternative reporting – cash accounting

The standard method of reporting Outputs Tax and Deductible Input Tax in the tax period of the date of supply is described as the invoice accounting basis.

An alternative cash accounting basis is available for taxable persons with annual taxable supplies valued below a certain threshold.<sup>(74)</sup> This is an optional simplified method which allows for paying Output VAT and deducting Input VAT after receiving or paying the amount only. This is intended to support small businesses with the administrative burden of calculating and reporting VAT on the invoice accounting basis.

A Taxable Person is only eligible to apply to GAZT to use cash-based accounting if the annual value of taxable supplies in the past calendar year, and the anticipated value of taxable supplies in the current calendar year, does not exceed five million Saudi riyals. A request to use the cash based accounting method is made through GAZT's electronic portal, at the time of registration or at a later time. Taxable persons may only use cash accounting method after receiving notification from GAZT.

Taxable persons with taxable supplies above the SAR 5,000,000 threshold are in all cases required to report to GAZT on the standard invoice accounting basis.

If the business is approved for cash accounting, then the VAT return for a Tax Period is prepared on the following basis:

<sup>(74)</sup> Article 46, Cash accounting basis, Implementing Regulations

Output Tax is reported in respect of Supplies of Goods and services for which, and to the extent that, payment has been made to the taxable person in that tax period.

Input VAT can only be deducted in the tax period in which the taxable person has made payment for the supply of goods and services made (other requirements for input tax deduction, such as holding a valid Tax Invoice, must also be met).

## 6.2. PAYMENT AND REFUNDS

### 6.2.1. Making payment

Businesses must pay GAZT the tax they owe, via a bank transfer to GAZT's designated account using the SADAD payment system, no later than the last day of the month following the end of the tax period to which the VAT return relates. Payment details and the due date for each tax return are confirmed on the billing notification issued after submission of the VAT return.

### 6.2.2. Request for extension in exceptional circumstances

If, due to exceptional circumstances or hardship, a taxpayer is unable to pay the full amount of VAT when it is due, the taxpayer can request an extension from GAZT in writing, noting:

- The amount of tax owed
- The tax periods associated with that sum
- Why paying on time is not possible

GAZT will reply either approving payment by instalments, or rejecting the request within 20 days.<sup>(75)</sup> In all cases, the standard due date for payment as set out in law will apply until GAZT notifies otherwise.

### 6.2.3. Applying for refunds

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 together with the filing of the VAT return. The Summary page of the online portal will highlight situations when the taxpayer is in a credit position for VAT, and allow a request to be made through the portal.

GAZT will review these requests and will pay the amount due on refund requests that have been approved, directly to the IBAN details specified by the taxpayer,<sup>(76)</sup> provided that the IBAN entered on the request is linked to the taxpayers company or personal identification number.

## 6.3. CORRECTING 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 their VAT obligations, he should notify GAZT and correct the error by amending the tax return using the online portal.

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.

Errors resulting in a net tax difference of less than SAR 5,000 may be corrected by amending the net tax (using field 14) in the subsequent VAT return.<sup>(77)</sup>

<sup>(75)</sup> Article 60, Extension of time to pay Tax, Implementing Regulations

<sup>(76)</sup> Article 69, Refund of overpaid Tax, Implementing Regulations

<sup>(77)</sup> Article 63, Correction of Returns, Implementing Regulations



## 6.4. RECORDS

Taxable Persons are required to maintain certain records for VAT purposes – including the relevant books, records and accounting documents – for at least the minimum period set out in law. These obligations are set by the Unified VAT Agreement, VAT Law and Implementing Regulations for VAT purpose.<sup>(78)</sup> They exist in addition to any other requirements on persons in the KSA to maintain records under the Law of Commercial Books<sup>(79)</sup> or other relevant laws.

Records are primarily required to document the calculation and reporting of VAT for audit purposes. The following is a non-exhaustive list of the documents GAZT will expect to review upon request:

- All tax invoices issued and received;
- Books and accounting documents;
- Contracts or agreements for large sales and purchases, or relevant correspondence detailing the particulars of those supplies;
- Bank statements and other financial records;
- Import, export and shipment documents; and
- Other records relating to the calculation of VAT and preparation of VAT returns

Records may be kept in physical format or electronically. In either case, records must be kept in the KSA (either physically, or through an access to the relevant server where these records are stored).

The Implementing Regulations require that records shall be kept in Arabic.

In cases where the Taxable Person opts to store records electronically, to the extent possible data shall be entered into the computer system in the Arabic language and shall be identical to the physical records.<sup>(80)</sup>

All records must be kept for at least the standard minimum retention period of 6 years.<sup>(81)</sup> A longer minimum period is prescribed in law for all records relating to moveable and intangible Capital Assets, being 11 years (this is calculated as the prescribed useful life of the asset for VAT purposes of six years, plus a further five years). Tax Invoices, books, records and documents pertaining to real estate must be retained for a minimum of 15 years in all cases.<sup>(82)</sup>

The Taxable Person may appoint a third party to comply with the record storage requirements. The Taxable Person in all cases remains directly responsible for such compliance.<sup>(83)</sup>

The Authority shall at all times reserve the right to require additional records be provided by a Person for the purposes of registration, examination and assessment procedures in cases where the Authority considers it necessary and has a justifiable reason for such requiring such additional records.

Where applicable, GAZT will notify the Taxable Person that it requires such additional records and shall allow a period of 20 days (or alternative reasonable timeframe, depending on the nature of the requested information) for the Taxable Person to submit the additional records.<sup>(84)</sup>

Further detail is provided in the Invoicing and Records guideline.

(78) Article 59, Retention Period for Tax Invoices, Records and Accounting Documents, Unified VAT Agreement and Article 66, Records, Implementing Regulations

(79) Royal Decree No. M/61, 27 June 1989

(80) Article 66(3), Records, Implementing Regulations – without prejudice to any obligation under other regulations

(81) Article 66(1), Records, Implementing Regulations

(82) Article 59, Retention Period for Tax Invoices, Records and Accounting Documents, Unified VAT Agreement

(83) Article 66(4), Records, Implementing Regulations

(84) Article 66(6), Records, Implementing Regulations

## 7. DEALING WITH GAZT

### 7.1. TAXPAYER CHARTER

As a taxpayer, you can expect a minimum standard to be met while dealing with GAZT and can expect certain standards in GAZT's administration of VAT. Equally, GAZT expects taxpayers to meet certain minimum standards. These standards are set out in the taxpayer charter, accessible on the GAZT website.

### 7.2. AUDIT AND ASSESSMENT

GAZT is responsible for reviewing the correctness of VAT returns or other documents submitted to GAZT, and for carrying out formal examinations to ensure compliance.

In case GAZT selects a VAT return or document filed by a taxpayer to be subject to a review, then the taxpayer may be contacted and asked:

- To explain any aspect of a document or tax return submitted;
- To provide evidence to support the VAT return, which may include certain tax invoices and relevant business records such as contracts or bank statements

#### 7.2.1. Examination

GAZT will carry out examinations via a combination of on-site and off-site audits. Taxpayers are required by law to cooperate with an examination carried out by GAZT.

In most cases, GAZT will provide prior notice (of at least 20 days) before an examination. The prior notice will advise if an on-site examination is intended, and where applicable, advise on any particular tax periods being reviewed. In certain cases, GAZT may carry out an examination without prior notice.

During an examination, a GAZT officer may visit any premises of the Taxable Person to verify that the Taxable Person is complying fully with its Tax obligations. All invoices, books, records and accounting documents which the taxpayer is obliged to keep (as described in section 6), should be made available to be examined by GAZT upon request (both on the premises of the taxpayer and off the premises of the taxpayer).<sup>(85)</sup>

#### 7.2.2. ASSESSMENT

If GAZT observes an error in a VAT return or other document submitted to it by a taxable person during an examination or in any other cases, it may issue an **assessment** to correct that error.

GAZT may make an assessment of a taxpayer in respect of one or more tax periods, within five years from the end of the calendar year in which the tax period falls.<sup>(86)</sup> In cases where any transaction is carried out with the intention of breaching VAT legislation or failure to register for VAT, assessments may be issued or amended up to a period of twenty years from the end of the calendar year in which the tax period falls.<sup>(87)</sup>

GAZT shall notify the taxable person that an assessment is issued and of its rights to appeal the assessment. An assessment issued will at a minimum show:<sup>(88)</sup>

- Net VAT payable;
- Due date for payment; and
- The basis for the calculation of the assessment

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(85) Article 64(6), Examinations and assessment procedures, Implementing Regulations

(86) Article 64(3), Examinations and assessment procedures, Implementing Regulations

(87) Article 64(4), Examinations and assessment procedures, Implementing Regulations

(88) Article 64(1,2), Examinations and assessment procedures, Implementing Regulations

Where applicable, an assessment may include a fine or penalty imposed on the taxpayer for a violation of the law. Section 11 of this guideline provides information on when penalties may be imposed.

### 7.3. TAXPAYER INFORMATION AND DATA PRIVACY

All Persons are required by law to provide GAZT with any information requested for the purposes of establishing whether that Person is complying fully with its Tax obligations.<sup>(89)</sup>

In addition, GAZT may request information directly from other government entities, or from banks and other financial institutions regulated in the Kingdom by the Saudi Arabian Monetary Authority or the Capital Market Authority.

GAZT undertakes to keep information provided by taxpayers confidential. GAZT may only disclose tax information received in an official capacity in the following situations:<sup>(90)</sup>

- Disclosure is required by any court order, law or implementing regulations or other governing rules applicable in the KSA;
- Disclosure is necessary for the exercise of the duties and powers vested in GAZT under the following conditions:

- a) "the disclosure is made to another employee of the Authority acting in their official capacity, or to the Customs Department, the General Audit Bureau, a tribunal or court, or a tax authority of a foreign country in accordance with any treaty or agreement to which KSA is a party,
- b) the employee of the Authority is carrying out those powers on the instructions of the Authority and is authorised to do so,
- c) the disclosure of Tax information is not excessive compared to the purpose of the disclosure, having regard to the personal or commercial impact of the disclosure,
- d) the Tax information is not retained for longer than necessary for the purpose of the disclosure,
- e) the confidential information that is disclosed is stored in an adequate and protected matter, and takes all measures prescribed by the Authority against unlawful or unauthorised distribution, loss, destruction or damage of the confidential information,
- f) before the disclosure, the person to whom the disclosure is made, is made aware of the confidentiality of the Tax Information and of the confidentiality requirements stated in the Law."

- A person may also disclose tax information related to another taxpayer upon the taxpayer's written consent

### 7.4. APPLYING FOR THE ISSUE OF RULINGS (INTERPRETATIVE DECISIONS)

In the event that the taxable person is 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.

A reply to a request for a ruling may be either:

- Public, in which event the Authority will publish details of the ruling, and may redact taxpayer-specific information, or
- Private, in which case the Authority will not publish the ruling

(89) Article 56, Right of the Authority to obtain information, Implementing Regulations

(90) Article 55(1), Confidentiality of information, Implementing Regulations

The ruling must contain all of the information and documents 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.

The Authority has full discretion to respond, or decline to respond, to ruling requests based on a number of determining factors, including:

- The information submitted by the taxpayer regarding the subject of the ruling,
- The relevancy of the subject to the VAT Law and Implementing Regulations;
- The potential benefit to taxpayers as a whole on the issuing of a general ruling concerning some transaction or activity

The Authority shall provide ruling requests to inform the taxpayer on the application of existing laws at the time the facts were provided, and shall undertake due care in this provision; however, any response to a ruling shall not be binding on the Authority nor shall it be considered an administrative decision.

## 7.5. IF YOU DISAGREE WITH A GAZT DECISION

If you disagree with a decision by GAZT, you should address this promptly and be aware of your right to formally challenge the decision.

In case of an assessment, the taxpayer will be notified of its right to appeal the assessment by submitting an **objection**. An objection must be made within 30 days of the date on which the assessment notification is sent. The assessment will be final if no objection is made within this time period.<sup>(91)</sup>

In cases of penalties issued by GAZT (separately to an assessment), taxable persons have a separate right to object against the penalties decision, within 30 days of the issue of the penalty.<sup>(92)</sup> The penalty will be final if no objection is made within this time period.<sup>(93)</sup>

In all cases, payment of tax (and/or penalties) remains due whilst the matter is under formal challenge.

In cases where the Authority and the relevant taxpayer consent to the use of a mediation procedure to resolve a dispute, the matter can be referred to GAZT's Internal Settlement Committee for resolution. Two external committees will also be set up to manage VAT objections and appeals that have not been resolved in any previous stage, taking into account the time limits of objections and appeals for the taxable persons. These committees will be a sub-set of the Committee for the Settlement of Tax Violations and Disputes.

- VAT First Instance Committee. This committee will be responsible for adjudication of violations, disputes and claims of public and private rights resulting from the enforcement of the provisions of tax laws and regulations
- VAT Appeals Committee. This committee will be responsible for adjudication on objections made against the decisions of the VAT First Instance Committee. The decision of the VAT Appeals Committee will be final and cannot be appealed

Further detail on the operation of these committees will be provided in a separate guideline.

(91) Article 68, Appeals, Implementing Regulations and Article 66, Objection and Appeal, Income Tax Law (as amended by Royal Decree M/113)

(92) Article 49, VAT Law

(93) Article 68, Appeals, Implementing Regulations and Article 66, Objection and Appeal, Income Tax Law (as amended by Royal Decree M/113)

## 8. DEALING WITH SUPPLIERS AND CUSTOMERS

### 8.1. VAT ON PRICING AND CONTRACTS

The Unified VAT Agreement requires that: “published prices in the local market for Goods and Services must include VAT”.<sup>(94)</sup> This means that prices expressed to the general public (for example, in a retail store) should be a VAT-inclusive price.

In the context of business-to-business transactions, a supplier and customer may agree a VAT-exclusive price or consideration payable for a supply of goods and services. In these cases, it must be clear from the agreement that the price is exclusive of VAT. If a price is expressed without any mention of VAT, it will be presumed to be inclusive of the VAT amount. In these cases, or if the agreement contains other wording to prescribe the consideration includes VAT (such as “inclusive of all taxes”), the VAT due by the Supplier is calculated as prescribed by section 3.2 of this guide (as 5/105 of the total consideration payable).

Whilst VAT is designed as a tax on consumption, the VAT law and Regulations do not prescribe whether the Supplier or Customer bears the “cost” of VAT on any particular supply. It is required that the Supplier:

- Applies the appropriate VAT treatment to their supply, and
- Reports the Output VAT based on the total consideration paid or payable by the customer

The total consideration payable is a contractual matter to be agreed between the Supplier and Customer. To provide greater certainty for both parties, it is recommended that agreements in the business-to-business market for supplies of goods and services clearly specify whether the consideration agreed is VAT inclusive or exclusive.

### 8.2. TRANSITIONAL “GRANDFATHERING” RELIEF

Many contracts existing in the KSA before 1 January 2018 clearly provide that the contract price is inclusive or exclusive of VAT, or have terms and conditions specifying the effect of a future change in taxes on the contract price, these being contracts that anticipate the application of VAT.

Nevertheless, there may be many other long-term contracts in the KSA entered into before the introduction of VAT that do not:

- Specify whether the contract price shall be inclusive or exclusive of VAT,
- Provide terms and conditions relating to the effect of VAT on the contract price, or
- Set out how change in taxes may affect the price payable

Existing contracts that do not anticipate the application of VAT to the supplies of goods and services would often result in a significant and unanticipated burden upon the introduction of a new VAT system. For this reason, exceptional provisions were introduced relating to such contracts – entered into before 30 May 2017 - by way of a transitional relief in order to remove this tax burden.

These provisions are referred to as “transitional provisions for the application of the zero rate to existing contracts” or “grandfathering” rules, and can apply until 31 December 2018 at the latest. Detail on the application of this provision is contained in the Transitional Rules guideline.

### 8.3. DEALING WITH NON-REGISTERED SUPPLIERS AND CUSTOMERS

#### 8.3.1. Non-registered suppliers

Suppliers who are not registered for KSA VAT must not – in any cases – charge KSA VAT on a supply.

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(94) Article 25(2), Tax Rate, Unified VAT Agreement

For businesses who purchase goods or services from non-registered Saudi resident suppliers, no additional action is required. No VAT will be charged by such suppliers and no VAT will be paid on the transaction (as VAT is only charged on Taxable Supplies by Taxable Persons). As no VAT is charged, no input VAT can be deducted in relation to the purchase.

However, additional obligations often arise from a purchase from a non-resident supplier. The Reverse Charge Mechanism applies in cases where a Taxable Person receives a supply of Goods or Services which are supplied in the KSA under the place of supply rules from a non-resident supplier (not including imports of goods). The receipt of goods or services by a Taxable Person – when those goods and services are supplied in the KSA (under the place of supply rules) – from a non-resident supplier are subject to VAT under the reverse charge mechanism.

The non-registered non-resident supplier will not charge KSA VAT, but the registered recipient is required to declare the VAT amount calculated based on the reverse charge mechanism through the VAT Return (refer to section 6.1 for details).

If a non-registered KSA resident person receives taxable services from non-resident suppliers in the course of carrying out an Economic Activity, the receipt of services will count towards the mandatory registration threshold for the purpose of registration.<sup>(95)</sup> The recipient may therefore be liable to register as a result of the receipt of services from non-resident suppliers.

### 8.3.2. Non-registered customers

In principle, VAT must be charged upon making a Taxable Supply to all customers, including businesses (whether registered for VAT or not), individuals, Government entities or other bodies. Suppliers are not required to confirm or state the TIN of a domestic Saudi-resident Customer on the Tax Invoice<sup>(96)</sup> and should in general charge VAT on Taxable Supplies made in the KSA, regardless of the registration of the Customer.

## 8.4. APPLYING VAT ON TRANSACTIONS WITH PUBLIC BODIES

### 8.4.1. Public bodies as supplier

A government authority or other public body is considered a person for VAT purposes, and can make and receive supplies of goods and services.

If a government body is registered for VAT (and therefore a Taxable Person) VAT is by default charged on all supplies made as part of its Economic Activity.

However, activities carried out by a governmental body in its capacity as a public authority are - by exception - not an economic activity. Therefore the public services provided by a governmental body will often be not subject to VAT. The Economic Activity guideline provides more detail.

Government bodies are not defined, but this is intended to be interpreted broadly to include all forms of state and local government. This includes:

- (1) The statewide authorities (executive, judicial and legislative authorities, and government departments or ministries);
- (2) Regional and local government authorities, including municipalities; and
- (3) Other bodies governed by public law which form part of the public administration or carry out the duties empowered and designated by the state. This includes government bodies of all types.

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

(96) Unless in rare circumstances when the Customer self accounts for VAT on a supply from a Taxable Person – Article 53(5)(d), Tax Invoices, Implementing Regulations

Government bodies are generally funded by the state for wider public good, or are established to carry on a regulatory activity.

Where these bodies carry out the designated activities assigned to them by the State through the Law, Royal Decree or order establishing those bodies to carry out public functions, this does not constitute an Economic Activity and falls outside of VAT scope. This is regardless of whether it makes charges or accepts charges for carrying out these functions.

A Government body may therefore apply VAT on its charges in some cases, but not in other cases. It is the supplier's responsibility to determine its VAT status and apply the appropriate VAT treatment to its supplies. For certainty, it is recommended that application of VAT on any charges is clarified upfront.

#### **8.4.2. PUBLIC BODIES AS CUSTOMER**

A Taxable Person must charge VAT for taxable supplies of goods or services regardless of the customer identity (individuals, companies, Foreign Governments, International Organizations, Diplomatic and Consular Bodies and Missions, or Government/public bodies). Taxable supplies of goods or services made to government/public bodies in the KSA will be subject to VAT.

Although the charges made by a Government body in the capacity as a public authority may fall outside of the scope of VAT, this does not entail that those same bodies do not pay VAT on supplies made to them.

It is recommended that suppliers to public bodies should confirm whether the agreed or awarded consideration in the relevant contracts or agreements is inclusive or exclusive of VAT.

## 9. VAT ON INTERNATIONAL TRADE

Special VAT rules apply to international trade, in particular:

- The movement of goods to or from the KSA (imports and exports of goods); and
- Services purchased from non-resident suppliers or sold to non-resident customers

VAT is being introduced as a result of a common approach between the GCC States, including a unified VAT system for GCC trade. This system is designed to operate where all GCC states have introduced a domestic VAT system, and processes for exchanging information on intra-GCC trade have been implemented.

As such, 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. This section provides information on the VAT treatment applying to international trade to and from the KSA in both goods and services, and the transitional rules applying within the GCC. These topics are covered in further detail in the separate guideline on Import and Export.

### 9.1. APPLYING VAT ON IMPORTS OF GOODS

#### 9.1.1. Import VAT collected by Saudi Customs

VAT is chargeable on the import of goods into the KSA. The VAT charged on import is a separate imposition of tax to any VAT charged on a supply of those same goods.<sup>(97)</sup>

Import VAT is charged by the Customs Department at the point of entry into the KSA. The Common Customs law requires that a customs declaration shall be produced by the **importer** for any goods entering or leaving the country.<sup>(98)</sup> The named importer, who is licensed to import the goods and is shown as the importer on the customs declaration, is the person liable to pay import VAT.

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. 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 of input tax deduction.

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.

In all cases, VAT is paid by the importer of goods, and the right to deduction of that import VAT is with the importer, subject to normal deduction rules.

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

(98) Article 19, Common Customs Law



### 9.1.2. Calculating import VAT

Import VAT is calculated at 5% based on the declared landed value of the goods for customs purposes, inclusive of freight and insurance (equivalent to the Cost Insurance and Freight or CIF value), any customs or excise duties, and any incidental handling or storage charges, but excluding VAT, unless the import is exempt. Example (15): An importer makes an import entry for electrical goods. It shows the CIF value on the Customs form as SAR 25,500. Ad-valorem customs duties are applied at 5% to the electrical goods, so customs duties of SAR 1,275 are imposed by Saudi Customs. There are no additional charges collected on the import by Saudi Customs.

VAT on import is calculated based on 5% of the import value (CIF value plus duties and other incidental charges). Import VAT of SAR 1,339 (5% x SAR 25,500 + SAR 1,275) is payable by the importer.

### 9.1.3. Exempt imports

Imports of certain goods, or imports made in certain cases, are exempt from import VAT. These include:

- Goods whose supply are exempt or zero-rated for VAT purposes (in the KSA, this will primarily be qualifying medicine, qualifying medical goods and qualifying means of transport);<sup>(99)</sup>
- Goods which are exempt from customs duties under specific exemptions in the Common Customs Law, being:

- 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.<sup>(100)</sup>

- Personal items and gifts carried in travellers' personal luggage, which are exempt in accordance with the Common Customs Law, up to a cap of SAR 3,000 on such imports<sup>(101)</sup>

### 9.1.4. Supplies of imported goods

The supply of goods made before the formal import clearance into the KSA is normally not a supply subject to VAT.<sup>(102)</sup> 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.

## 9.2. VAT ON EXPORTS OF GOODS

The export of Goods outside the GCC territory is subject to the zero-rate of VAT<sup>(103)</sup> where the appropriate evidence of such is retained.

In standard cases, an export involves both:

- The completion of an export declaration by the exporter as required under the Common Customs Law;<sup>(104)</sup> and
- Transport of the goods outside of the GCC territory

(99) Article 38(1), Exemptions on Import, Unified VAT Agreement

(100) Article 38(2), Exemptions on Import, Unified VAT Agreement and Article 42, Exemptions for imports, Implementing Regulations

(101) Article 42, Exemptions for Imports, Implementing Regulations

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

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

(104) Article 42, Common Customs Law

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

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:

- a) export documentation issued by the Saudi Customs Authority 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,
- b) commercial documentation identifying the Customer and the place of delivery of the goods,
- c) transportation documentation evidencing the delivery to, or receipt of goods outside of Council Territory.<sup>(105)</sup>

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.<sup>(106)</sup>

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.

### 9.3. PURCHASES OF SERVICES FROM NON-RESIDENTS

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

VAT is charged on the receipt of 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.

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.”<sup>(107)</sup>

A non-resident supplier is a supplier with no place of business or other fixed establishment in the KSA. A fixed establishment is a 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.<sup>(108)</sup>

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.<sup>(109)</sup>

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

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

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

(108) Article 1, Definitions, Unified VAT Agreement

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

## 9.4. APPLYING VAT ON SALES OF SERVICES TO NON-RESIDENTS

Note: for clarity, this section states the requirements for zero-rating of supplies made during the transitional period. After the transitional period, the references to “non-KSA residents” will change accordingly to refer to “non-GCC residents”.

The supply of services by a KSA supplier, for a Customer who does not reside in the KSA and who benefits from the service outside the KSA, is in principle subject to the zero-rate.<sup>(110)</sup>

In order to apply the zero-rate, the supplier must ensure it can meet each of the criteria set out in Implementing Regulations:<sup>(111)</sup>

- a. **The supply of those services does not take place in the KSA under “special cases” described in the Unified VAT Agreement<sup>(112)</sup>** (see section 3.1.4 of this guideline).
- b. **The supplier has no evidence that the customer is resident in the KSA, and has evidence that the customer is a resident outside the KSA.** GAZT expects this evidence will generally be satisfied in practice by the issue of an invoice or other correspondence to a non-KSA address. Any publicly available information showing the recipient having an office or branch in the KSA should result in further investigation.
- 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 KSA 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, so that it only applies where benefits are directly provided by the supplier to the customer or another person.
- d. **The services are not related to any tangible goods or property located in the KSA 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. For example, an insurance policy on moveable property situated in the KSA should therefore not qualify for zero-rating, even where provided to a non-resident.
- e. **The supplier intends for the Services to be enjoyed outside the KSA.** The supplier should anticipate that the Customer will use the services in the course of activities outside of the KSA.
- f. **The supplier has no evidence that the benefit of the Services will be enjoyed within the KSA Territory.** This requirement is directed at the original supply by the supplier: that is, the supplier’s direct recipient should benefit from the services outside the KSA. The supplier must therefore not zero-rate if his services are directly provided to a person in the KSA (even if these are paid for by a non-KSA customer).

The onwards provision of services by the customer to a third party (an indirect customer), meaning that the services are later enjoyed in the KSA, does not in itself breach this requirement.

The term “enjoyed” is not defined in law. GAZT considers that for the interpretation of this provision, the benefit of services is enjoyed within KSA Territory (and the services are not eligible to be zero-rated under this article), 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.

The application of this test will depend heavily on the individual facts for each supply of services. To assist suppliers, an indicative table is intended to illustrate application of the principles above to common types of supplies made to non-resident customers. It is not intended to be an exhaustive list or a binding view on particular services. In all cases, the true nature of the services must be analysed in line with the tests above.

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

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

(112) Articles 17-21, Place of Supply – Special Cases, Unified VAT Agreement

TABLE: APPLICATION OF VAT TO SERVICES PROVIDED TO CUSTOMERS WITHOUT A KSA ESTABLISHMENT

<b>Nature of service provided to non-resident</b>	<b>Standard-rated</b>	<b>Zero-rated</b>
<b>Lease of tangible goods located outside the GCC / KSA</b>	In all cases where lease of tangible goods located in the KSA	Only if tangible property is outside the KSA
<b>Lease of immovable property</b>	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)
<b>Provision of intangible assets / intellectual property</b>	N/A	Zero-rated in most cases (provided recipient has no KSA place of residence)
<b>Physical work on goods (repair, alteration)</b>	In all cases where goods are situated in KSA	To a non-resident only if tangible good is situated outside the KSA
<b>Storage of goods</b>	In all cases where goods are situated in KSA	To a non-resident only if goods are situated outside the KSA
<b>Testing services relating to goods</b>	In all cases where goods are situated in KSA	If goods are situated outside the KSA May be zero-rated (under a separate provision) if provided with and ancillary to an international goods transportation service – see Transportation guideline
<b>Financial services</b>	Where customer or direct recipient receives services in KSA (e.g. currency exchange at kiosk), or financing of a physical asset in KSA (see Financial Service guideline)	Zero-rated in most cases provided recipient has no KSA place of residence
<b>Insurance services</b>	If relating to an insured person or physical asset in the KSA. Special Case may apply for insurance of real estate or insurance of a transport.	Zero-rated if recipient has no KSA place of residence and policy does not relate to an insured person/asset in the KSA
<b>Sales commission</b>	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 KSA place of residence
<b>Intermediary fees</b>	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 KSA place of residence

<b>Intermediary fees</b>	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 KSA place of residence
<b>Advertising services</b>	In cases where customer or direct recipient (such as an affiliate supplying goods or services in the KSA) receives benefit of advertising in KSA	If recipient has no KSA place of residence and does not make supplies of goods or services from the KSA
<b>Market research</b>	In cases where a person in KSA receives direct benefit of services	Zero-rated in most cases provided recipient has no KSA place of residence
<b>Consultancy / advisory services</b>	If recipient is receives the services whilst in the KSA (e. g. whilst carrying on a project there)	Zero-rated in most cases provided recipient has no KSA place of residence
<b>Administration services</b>	Need to examine exactly what services are being supplied to determine if any KSA consumption	Zero-rated in most cases provided recipient has no KSA place of residence
<b>Management services</b>	Need to examine exactly what services are being supplied to determine if any KSA consumption	Zero-rated in most cases provided recipient has no KSA place of residence
<b>Recharge / onwards charge of costs</b>	Need to examine exactly what services are being supplied to recipient, in order to determine if any KSA consumption	Need to examine exactly what services are being supplied to recipient, in order to determine if any KSA consumption
<b>Telecommunications and electronic services</b>	In case of actual use inside KSA or the place of residence is KSA. <sup>(113)</sup> (Special case under the GCC Agreement). Note: Supplies to non-residents will often fall outside the scope of VAT	Zero-rate cannot apply – Special Case under GCC Agreement
<b>Services provided directly to an individual</b>	If person receives services in KSA, (even if another person contracts for provision of services)	Zero-rate cannot apply
<b>Education services</b>	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 also fall under Electronic Services.

(113) Depending on the exact nature of the electronic or telecommunications service. Article 24, Wired and wireless telecommunications and electronic services, Implementing Regulations

<b>Transport services</b>	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 for services to non-residents cannot apply – Special Case under GCC Agreement. Note: transport-related services may fall outside scope or be zero-rated under separate provisions. (see Transportation guideline)
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## 9.5. INTRA-GCC TRADE

The Unified VAT Agreement lays down special rules for VAT to be applied to internal supplies between the countries of the Gulf Cooperation Council States, which are designed to harmonize the application of VAT on cross-border trade and ensure VAT is only payable once on each supply of goods and services. These rules are designed to work with all six states of the GCC having a domestic VAT law in place, and with an Electronic Service System to capture details of cross-border transactions in the GCC States.

Upon the introduction of VAT in the KSA on 1 January 2018, not all GCC states had a domestic VAT in place, and there was not an Electronic Service System in place on this date. Transitional provisions therefore apply to the supply of goods to and from KSA from all other GCC States, from the introduction of VAT in the KSA until the Electronic Service System is fully implemented. These rules apply regardless of whether other GCC States have a domestic VAT system in place.

The special rules apply until GAZT releases an Order to certify that the Electronic Service System is in place. Until this time, as a transitional measure:

- Goods moved from the KSA to another GCC State that applies VAT will be considered as an export of those goods from the KSA for KSA VAT purposes. These supplies will qualify for the zero-rating applying for exports to a non-GCC destination, provided the usual criteria for zero-rating of exports applies
- Goods moved into the KSA from another GCC State that applies VAT will be considered as an import of those goods into the KSA. Import VAT will be charged in the same manner as for imports from a non-GCC state. This will not affect the status of the goods for customs duty purposes
- Services provided to or from a resident of a GCC State will be considered to be provided to or from a non-GCC resident

## 10. VAT IN SPECIFIC SITUATIONS OR TRANSACTIONS

### 10.1. VAT AND EMPLOYEES

The payment of salaries and wages to an Employee do not give rise to any VAT obligations. VAT is not charged to Employees on salary or wages, or any additional monetary payments such as bonuses and increments paid to the Employee by the Employer.

#### 10.1.1. Reimbursements

Employers may also make monetary payments to reimburse Employees for actual expenditures incurred in the course of carrying out their work duties.

The Employee does not carry out an Economic Activity in respect of incurring and charging for these expenditures. Therefore, no VAT should be charged by the Employee on that reimbursements as these do not qualify as a supply. However, the Employee should generally be reimbursed for the full VAT inclusive cost.

In cases where it can be clearly evidenced that the Employee has received a supply of goods or services as a required part of his employment duties, GAZT will generally accept that the Employee incurs the cost on behalf of the Employer for VAT purposes. This is provided that the Employer proves that he has actually incurred the cost paid by the Employee (including VAT as appropriate). In these cases, the supply is treated for input tax deduction purposes as received by the Employer in the course of the Economic Activity of the Employer, provided that the Employer proves that such expenses were incurred in course of practising the Economic Activities of the Taxable Person and on behalf of the Employer (for example issuing tax invoices with the name of the employee and which also refer to the company name).

Example (16): Al Qimmah Consulting Company requires Faisal to attend a scientific conference in Dammam on 20 April, 2018. Faisal stays at the hotel where the conference is held on 19 and 20 April and incurs the accommodation cost including the VAT of 5%. The Company reimbursed Faisal for the total accommodation costs incurred. If the Company can evidence that this was carried out as a requirement of Faisal's work duties which are related to the Company's economic activities, the Company can account for the expenditure directly, and may be eligible for input VAT deduction if the relevant criteria are met.

#### 10.1.2. Statutory benefits

Employers in the KSA may be required by Labour Law or any other KSA law to provide certain non-monetary benefits to Employees.

Any costs incurred by Employers in the fulfilment of legal obligations to Employees under KSA laws are deemed to be carried on for the purpose of their Economic Activity. Whilst the Employees also derive a benefit from these obligations being fulfilled, this is a necessary cost of business and will not be considered private expenditure.

Input VAT deduction is permitted on the same basis as any other overheads or non-attributable expenditure, depending on whether the Employer's Economic Activity constitutes making taxable or exempt supplies. For treatment of provision of other (non-statutory) benefits to employees, and other VAT considerations for employees, refer to the Employee Benefits guideline.

### 10.2. DISCOUNTS AND REBATES

The value of a supply, and the amount of VAT due, is calculated based on the total Consideration received for a supply. Where a business provides a discount to a customer, the VAT due is the discounted price.

The discount may be reflected in the unit price of goods or value of individual services. Alternatively, a discount can be applied to the value of all supplies on a tax invoice – in which case the discount must be separately shown on the tax invoice.

A retrospective discount, or rebate, can be paid to the customer after the original Tax Invoice has been issued. In these cases, a credit note should be issued to reflect the adjustment to consideration, after which the Taxable Supplier may adjust the Output Tax originally reported. The Invoicing and Records guideline provides further information on Credit Notes and adjustments to VAT.

### 10.3. FREE ITEMS

The supply of free items – instead of a cash discount or rebate – is a common commercial practice. The supply of goods or services by a Taxable Person for no consideration is a nominal supply (provided the Taxable Person deducted input tax relating to those goods and services). VAT is calculated based on the purchase value or cost to the supplier (if the purchase value or cost cannot be determined, then the fair market value shall apply).

However, it is acknowledged that a Taxable Person will supply some small value items – such as gifts and samples - as part of its business activities. The KSA specifies that there will be no nominal supply for VAT purposes in cases where:

- The Fair Market Value of the Goods supplied without Consideration does not exceed two hundred (200) riyals exclusive of VAT per recipient per calendar year; and
- The annual value of Supplies of gifts, samples and Goods which a Taxable Person makes without Consideration does not exceed fifty thousand (50,000) riyals in that calendar year based on the Fair Market Value of those gifts, samples and Goods<sup>(114)</sup>

#### 10.3.1. Promotional offers

In some cases, a good or service will be described as “free” as promotional language, but those goods or services are in fact:

- Provided together with and as an ancillary part of another dominant supply which is the main intention of the customer. For example: a “free” delivery forms an ancillary part of the sale of an expensive item of furniture, or a “free” wireless keyboard forms an ancillary part of the sale of a computer. In these cases, the free good or service is not an independent supply for no consideration. The supplier does not make a nominal supply
- Provided as part of a package of other goods or services sold for a combined price. For example, a retailer sells two identical goods with a third provided “free” – this is the sale of three identical goods at a discounted price. In these cases, the consideration relates to all goods and services supplied, and should be allocated accordingly across the goods and services. No nominal supply will arise in this case

However, if a good or service is provided independently for no consideration, that is - those goods and services are not part of another supply for consideration, this can be viewed as a nominal supply. If a separate good or service is shown on a tax invoice with a corresponding unit price or service value of zero, this may indicate that an independent supply for no consideration is made.

Such supplies may be considered nominal supplies if the supplier had deducted input tax, and the low value thresholds do not apply.

Further guidance is provided in a separate guideline on business promotions.

(114) Article 15, Nominal Supplies, Implementing Regulations



## 10.4. VOUCHERS

Vouchers are often issued in commercial practice which allow customers to redeem them for goods or services provided by a supplier or a group of suppliers. A voucher can be a physical voucher, or an electronic card with a stored value (for example, an electronic gift card or a pre-paid phone card). Vouchers can be traded and do not require use by a specific customer. In many cases, the voucher includes a monetary value (the "face value").

Special VAT rules apply to a voucher as defined in the Implementing Regulations, being "an instrument where there is an obligation to accept it as Consideration or part Consideration for a Supply of Goods or services, and where the nature of the Goods or services to be supplied or the identity of the Supplier is indicated on the Voucher or in related documentation".

Where a person issues or supplies a Voucher, this is not considered to be a supply.<sup>(115)</sup>

When the voucher is redeemed as consideration for goods or services, VAT should be charged on the underlying supply of goods or services.

A document described as a "voucher", but which is not redeemable (to be used as consideration for goods or services) does not fall within these specific rules.

Further guidance is provided in a separate guideline on business promotions.

## 10.5. AGENTS

The term "**agent**" is not a defined term for VAT purposes, and can often be interpreted broadly in both commercial practice and KSA law surrounding commercial agency.<sup>(116)</sup> The VAT treatment of transactions may however be affected in certain cases where agents act in the supply chain.

For the purposes of this guideline, an agent is a person who acts on behalf of a principal (supplier or a customer) in respect of a supply. This is a narrower definition than in Commercial Agency law: therefore persons who trade as "commercial agents" are unlikely to be acting as an agent for VAT purposes (and for VAT purposes are generally seen instead to be a principal selling goods on their own account).

An agent may act on behalf of a principal seller or purchaser in respect of a supply of goods and services; as well as supplying agency services in its own right to the principal. The VAT Law differentiates between:

- An agent who acts on behalf of a person (the principal) and in the name of that person (this is also known as "disclosed" agency as the agency relationship is disclosed to the third party); and
- An agent who acts on behalf of a person but in the Agent's own name (this is also known as "undisclosed" agency, as the third party is not aware that the agent acts on behalf of a principal)<sup>(117)</sup>

### 10.5.1. Agent acts in the name of the principal

Where an Agent acts in the name of the principal (the supplier), VAT applies to the transaction between the supplier and the customer as normal.

(115) Article 19(1), Issue or Supply of a Voucher, Implementing Regulations. Note however that the Supply of a face value Voucher is a Supply of services to the extent that the Consideration provided in respect of the issue or Supply of the Voucher exceeds its monetary face value

(116) Commercial Agencies Law issued by Royal Decree No. M/11 dated 20/2/1382H

(117) Article 9, the VAT Law. The VAT Law details the specific rules for Agents acting in their own name to be viewed to act as principal (i. e. the supplier or customer) to the underlying supply for VAT purposes. Conversely, Agents acting in the name of the customer are treated as making or receiving the supply of goods or services in the name of the customer

The commission charged by a “disclosed” agent for services provided to the principal is subject to VAT under the standard rules.

### 10.5.2. Agent acts in the Agent his own name

If an Agent deals with others in their own name, such agent is considered – for VAT purposes – to act in its own name (as a principal) in dealings with third parties. Therefore, Agents are deemed to receive or make the underlying supply themselves.<sup>(118)</sup>

The commission charged by an Agent acting in his own name is not a separate supply, since for VAT purposes it represents the profit margin made on the sale. Further detail and examples are included in the Digital Economy guideline.

## 10.6. Capital Assets

There are specific rules for Input Tax deduction related to capital assets. The definition of capital assets is “material and immaterial assets that form part of a business’s assets allocated for long-term use as a business instrument or means of investment.”<sup>(119)</sup>

Capital assets may therefore include tangible and intangible assets.

Deduction of Input Tax on capital assets is determined based on the purchaser’s intended use of the asset at the date the capital assets are purchased.

Example (17): A family business has an investment division carrying on partly exempt financing activities, a retail division and a travel division offering goods and services to Customers. The business purchases new office furniture and fittings to be used exclusively in the office of the travel division. The travel division’s activities are fully taxable. As the business intends the assets to be used long-term in a use which is attributed to Taxable Supplies of travel, the Input VAT is deducted in full on purchase.

The use of the capital assets must be monitored annually over the useful life of the asset. Where usage changes from taxable to non-taxable, or vice versa, the Taxable Person is required to adjust previously deducted Input Tax by way of an adjustment. These changes should be made, as applicable, each 12 months.<sup>(120)</sup>

Further information about capital assets and the deduction of Input Tax related to capital assets will be provided in a separate guideline.

## 10.7. USED GOODS

After GAZT approval, taxpayers can opt to calculate VAT based on the profit margin earned on supplies of **eligible used goods** to determine the VAT amount due (instead of the full consideration received).<sup>(121)</sup>

In order to use the profit margin method, a supply of eligible goods must meet the following criteria:

- Goods must be situated in the KSA;
- Goods must be of a type which have been specified by GAZT as eligible used goods;
- Goods were purchased in the KSA from (1.) a non-taxable person, (2.) a taxable person selling those goods outside his economic activity, or (3.) a supplier applying the profit margin method;

(118) Article 9, VAT Law

(119) Article 1 Definitions, Unified VAT Agreement.

(120) Article 52, Capital Assets, Implementing Regulations

(121) Article 48(1), Supply of used Goods, Implementing Regulations

- The supplier of eligible used goods must be notified by GAZT of approval to use the method; and
- The supplier must comply with specific invoicing and record-keeping requirements for supplies of eligible used goods

If the criteria above are not met – including any supply of used goods not specified as eligible used goods at the date of supply, VAT must be calculated under the standard rules by applying VAT based on the total consideration payable. At the time of issuing this guideline, GAZT has yet to specify any categories of used goods which are eligible for this method.

Further information about eligible used goods and calculation of VAT on a profit margin basis will be provided in due course.

## 11. PENALTIES

The Authority may impose penalties or fines on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations.<sup>(122)</sup>

Description of offence	Associated fine
<b>Submitting false documents with the intent of evading the payment of the VAT due or to reducing its value</b>	<ul style="list-style-type: none"> <li>• At least the amount of the VAT due</li> <li>• Up to three times the value of the goods or services</li> </ul>
Moving goods in or out of the Kingdom <b>without paying the VAT due</b>	<ul style="list-style-type: none"> <li>• At least the amount of the VAT due</li> <li>• Up to three times the value of the goods or service</li> </ul>
<b>Failure to register</b> for the VAT in the allotted timeframe	SAR 10,000
<b>Filing incorrect tax return, amend a tax return</b> 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
<b>Failure to file</b> VAT return in time	5-25% of the VAT in respect of which the return should have been filed
<b>Failure to pay</b> the VAT in time	5% of the VAT due for each month or part thereof
Collecting VAT <b>without being registered</b>	Up to SAR 100,000
Failure to <b>maintain books and records</b> as stipulated in the regulations	Up to SAR 50,000
<b>Preventing GAZT employees</b> 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).

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

## 12. GLOSSARY

All quoted legal definitions are as defined in Chapter One of the Unified VAT Agreement, unless referenced otherwise.

### 12.1. MAJOR CONCEPTS

<b>Output VAT or Output Tax</b>	Defined in law as “The tax due and chargeable on any Taxable Supply of Goods or Services made by a Taxable Person.” <sup>(123)</sup> This is usually collected by the Person making the supply.
<b>Input VAT or Input Tax</b>	Defined in law as “Tax borne by a Taxable Person in relation to Goods or Services supplied to him or imported for the purpose of carrying on the Economic Activity.” A specific guideline on Input Tax deduction provides further information.
<b>Economic Activity</b>	This is a broad term intended to capture the business activities which are - in principle - subject to VAT. This is defined in law as “An activity that is conducted in an ongoing and regular manner including commercial, industrial, agricultural or professional activities or Services or any use of material or immaterial property and any other similar activity.” A specific guideline on Economic Activity provides further information.
<b>Goods</b>	Defined in law as “All types of material property (material assets), including water and all forms of energy including electricity, gas, lighting, heating, cooling and air conditioning.”
<b>Services</b>	Anything supplied which is not a supply of goods.
<b>Consideration</b>	Defined in law as “Everything collected or to be collected by the Taxable Supplier from the Customer or a third party for the Supply of Goods or Services inclusive of the VAT.”
<b>Place of supply</b>	The country, or other place, where a supply is considered to take place for VAT purposes according to the rules set out in the Unified VAT Agreement, VAT Law and Implementing Regulations.
<b>Date the supply takes place or Date of supply</b>	The date on which Tax is due on a particular supply in accordance with the rules set out in the Unified VAT Agreement, VAT Law and Implementing Regulations. This date may differ from the date the goods or services are actually provided.

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(123) Article 1, VAT Law

## 12.2. TRANSACTIONS

<b>Supply</b>	Defined in law as "Any form of supply of Goods or Services for consideration in accordance with the cases provided for in Chapter Two of [the Unified VAT] Agreement." Intended as a broad definition. See sections 3.1 and 3.5 for further examples.
<b>Taxable Supplies</b>	Defined in law as "Supplies on which Tax is charged in accordance with the provisions of the Agreement, whether at the standard rate or zero-rate, and for which associated Input Tax is deducted in accordance with the provisions of the Agreement." See section 3.1 for detail and examples.
<b>Zero-rated supplies</b>	Taxable supplies with VAT charged at the 0% rate. See chart in section 3.1.3.
<b>Exempt Supplies</b>	Defined in law as "Supplies on which no Tax is charged and for which associated Input Tax is not deducted pursuant to the provisions of the Agreement and Local Law." See chart in section 3.1.3.
<b>Nominal Supplies</b>	Defined in law as "Anything that is considered a Supply in accordance with the cases provided for in Article 8 of [the Unified VAT] Agreement." See section 3.3.
<b>Reverse charge supplies</b>	Supplies on which the Customer is obliged to pay the VAT due under the Reverse Charge Mechanism. See section 3.4.
<b>Intra-GCC supplies</b>	Defined in law as "Supplies of Goods or Services by a Supplier who resides in a Member State to a Customer who resides in another Member State." This term only applies in a KSA context after the transitional period is announced to have ceased (following the full introduction of VAT across the GCC States and an Electronic Services System).
<b>Supplies which are outside the scope of KSA VAT</b>	Supplies which are not made in the KSA under the place of supply rules, or which are otherwise not subject to VAT. See section 3.5 for examples.
<b>Import of Goods</b>	Defined in law as "The entry of Goods into any Member State from outside the GCC Territory in accordance with the provisions of the Common Customs Law." During the transitional period, an import of goods includes the entry of Goods into the KSA from any place outside of KSA territory.
<b>Export of Goods</b>	Defined in law 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." During the transitional period, an export of goods includes goods exported to any place outside of KSA territory.

**Continuous supply** The provision of goods or performance of services continuously across a defined period. See section 3.6.2.

**Special Cases (of Services)** Services falling under special place of supply rules in Articles 17-21 of the Unified VAT Agreement. See section 3.1.4.

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## 12.3. PERSONS

**Supplier** Defined in law as "A Person who supplies Goods or Services."

**Customer** Defined in law as "A Person who receives Goods or Services."

**Resident** Defined in law as "A person will be resident in a State if he has a place of residence therein." Includes natural persons with a usual place of residence in the KSA, and legal persons with a main place of business or other fixed establishment in the KSA.

**Non-resident** Defined in law as "A person is not resident in a State if he has no Place of Residence therein."

**Importer** In respect of any import of goods, the importer and person liable to pay import VAT is defined as "the Person appointed or acknowledged as an importer pursuant to the Common Customs Law."<sup>(124)</sup>

**Employee** This is not a term defined in VAT law. GAZT considers that for the purpose of interpreting the Implementing Regulations, an employee is a person who is defined as an employee under the Labour Law, Civil Service Law, Military Service Law or other relevant regulations; and any other persons working under arrangements equivalent to an employment contract. See the Employee Benefits guideline for more details.

**Tax Group or VAT Group** A group of two or more legal persons who registered for VAT with GAZT under a single Tax Identification Number and who are treated as being a single taxable person for VAT purposes.

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

## 12.4. VAT COMPLIANCE

<b>Tax Invoice</b>	Defined in law as “An invoice issued in respect of Taxable Supplies in accordance with the requirements set out in the Law and the Regulations.” <sup>(125)</sup>
<b>Simplified Tax Invoice</b>	A tax invoice meeting the requirements stated in the Implementing Regulations for a simplified tax invoice. <sup>(126)</sup>
<b>Tax Identification Number or VAT Account Number</b>	A registration number issued by GAZT for the purposes of registering as an entity for all taxes, and for identifying the taxable person for VAT. <sup>(127)</sup> The full number provided upon completion of the VAT registration is the TIN for VAT purposes.
<b>Tax Return or VAT return</b>	The filing made to GAZT by a Taxable Person declaring the total Output Tax, Deductible Input Tax and Net Tax payable or refundable for a Tax Period. See section 6.1.
<b>Tax Period</b>	Defined in law as “The period of time for which the Net Tax must be accounted.” In the KSA, the tax period is either a calendar month or calendar quarter. See section 6.1.
<b>Net Tax</b>	Defined in law as “Tax resulting from deducting the Deductible Tax in a Member State from the Tax due in that State within the same Tax Period. Net Tax may either be payable or refundable.”
<b>Invoice accounting basis</b>	The standard method for calculation and reporting of VAT based on the date that each supply takes place for VAT purposes.
<b>Cash accounting basis</b>	An alternative method for calculation and reporting of VAT based on the date that payment is made in respect of each supply. See section 6.1.2.
<b>Records</b>	The required books, tax invoices, accounting documents and other records which are required to be maintained for VAT compliance purposes. See section 6.4.
<b>Assessment</b>	An assessment of Net Tax made by a Taxable Person on submitting the Tax Return, <sup>(128)</sup> or an assessment of Net Tax made by GAZT in any other circumstances. <sup>(129)</sup>
<b>Examination</b>	An audit of the compliance of a Taxable Person with its VAT obligations, carried out by GAZT at the Taxable Person’s premises or any other location. <sup>(130)</sup> See section 7.2.
<b>Objection</b>	A formal objection made to the relevant committee or judicial body by a Taxable Person to an assessment or decision issued by GAZT. See section 7.4.

(125) Article 1, VAT Law

(126) Article 53(8), Tax Invoices, Implementing Regulations

(127) In accordance with Article 53, Tax Identification Number, Unified VAT Agreement

(128) Article 62(1), Tax Returns, Implementing Regulations

(129) Article 62(1), Tax Returns, Implementing Regulations

(130) Article 64, Examination and assessment procedures, Implementing Regulations



## 12.5. OTHER CONCEPTS

**Total value of taxable supplies** The total value of taxable supplies of a KSA resident during a twelve-month period, calculated in line with the rules described in section 2 of this guideline.

**Fixed establishment** Defined in law as “Any fixed location for a Business other than the Place of Business, in which the business is carried out and is distinguished by the permanent presence of human and technical resources in such a way as to enable the Person to supply or receive Goods or Services.”

**Deductible Tax or Deductible Input VAT** Defined in law as “Input Tax that may be deducted from Tax Due on supplies for each Tax Period in accordance with the Agreement and Local Law.” See section 5.

**Proportional deduction** Method for calculating Deductible Tax in cases where Input Tax is related to Goods and Services used to make Taxable Supplies and non-Taxable Supplies, based on the proportion referable to the Taxable Supplies.<sup>(131)</sup> See section 5.1 of this guideline, and the Input Tax Deduction guideline for more detail.

**Capital Assets** Defined in law as “Material and immaterial assets that form part of a business’s assets allocated for long-term use as a business instrument or means of investment.”

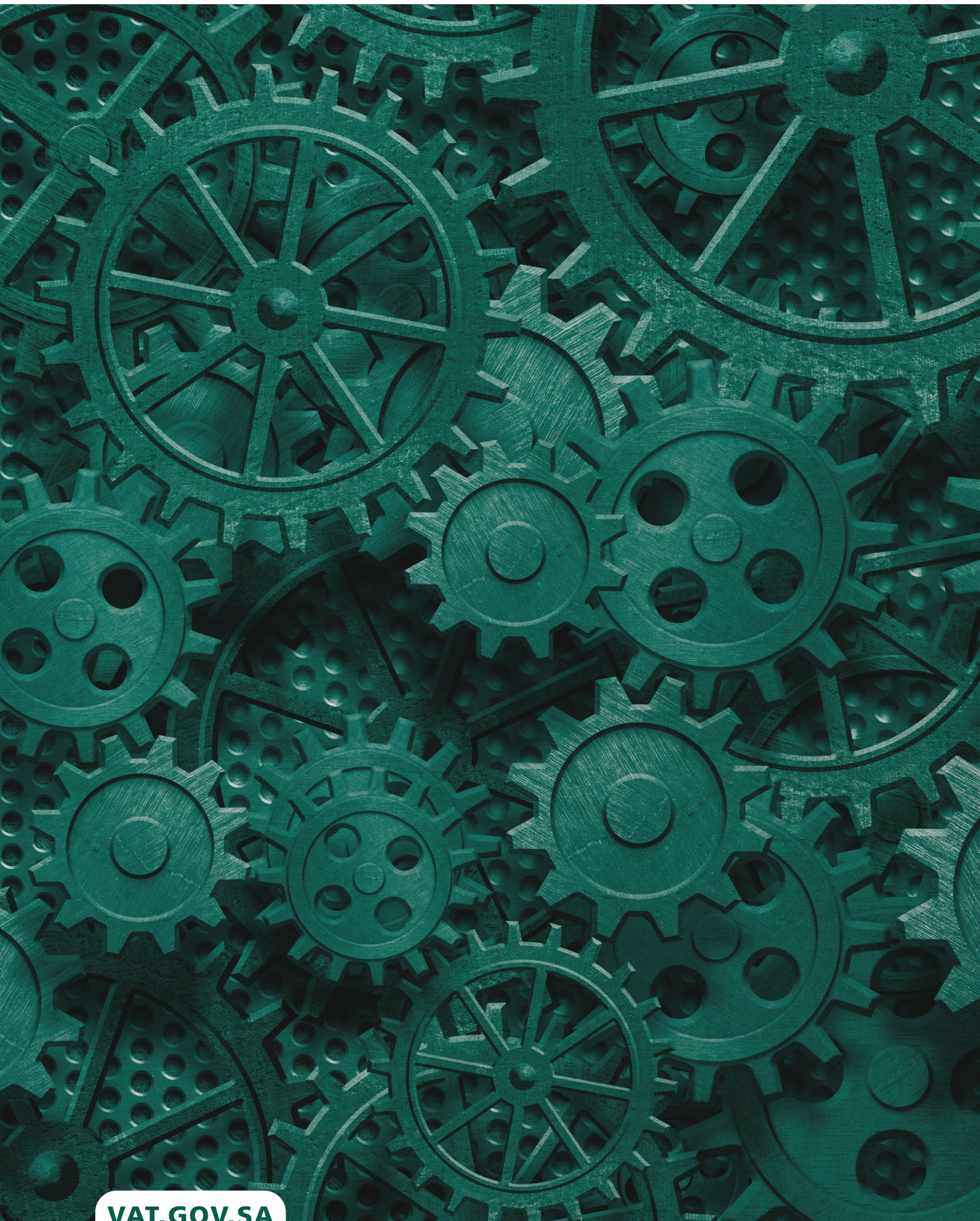
**Fair Market Value** Defined in law as “The amount at which Goods or Services can be dealt in in an open market between two independent parties under competitive conditions determined by each Member State.”<sup>(132)</sup>

Used as the value of supply for VAT purposes in certain prescribed conditions.

**Agent** A person acting on behalf of a principal (either a supplier or customer) in respect of a supply of goods or services. See 10.5.

**Eligible Used Goods** Goods prescribed by GAZT as eligible for calculating VAT based on the profit margin.<sup>(133)</sup> See section

(131) Article 46, Proportional Deduction, Unified VAT Agreement  
 (132) Article 26(1), Value of Supply of Goods and Services, Unified VAT Agreement. Application in the KSA in accordance with article 38, Fair Market Value, Implementing Regulations  
 (133) Article 48(2), Supply of used Goods, Implementing Regulations



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