



VAT in the Kingdom of Saudi Arabia

Final VAT Regulations published

What's happened?

Following a public consultation in July and August, the Kingdom of Saudi Arabia (KSA) released final VAT regulations through the tax authority (GAZT) website on 29 August. This follows an earlier consultation process and the publishing of a domestic VAT law in July. The regulations, the law and the finalized GCC Framework Agreement form the entire foundations for the introduction of VAT across all sectors in Saudi Arabia from 1 January 2018.

Taxpayers have now been provided with the full complement of rules to understand their obligations and the impact of VAT for their businesses. Some large businesses have already been registered by GAZT as part of an early process, and the registration portal is now open for other persons liable to register.

The regulations are an extensive document, and businesses should ensure they understand the full implications on their operations. This document summarizes some of the key implications for businesses to be aware of.

Which sectors are subject to VAT?

The GCCs Framework Agreement set some mandatory areas for zero-rating in all six Member States (such as exports of goods and services outside the GCC, medicines and investment metals). Individual countries are however able to elect whether exemptions or zero-rates apply in some other sectors.

The regulations reflect that Saudi Arabia has chosen a broad tax base: with VAT applying to almost all supplies of goods or services, subject to limited exceptions. For information, the table below compares the VAT treatment of supplies made in some sectors in the KSA with that indicated by the UAE's VAT law.

	Saudi Arabia	United Arab Emirates
Financial Services	Fee based services: taxable Margin based services: exempt	Fee based services: taxable Margin based services: exempt
Insurance	All non-life insurance: taxable Life insurance: exempt	All non-life insurance: taxable Life insurance: exempt
Food Items	All taxable	All taxable
Education *	Taxable	Specified services: zero-rated
Health *	Taxable	Specified services: zero-rated
Real Estate	Residential rental: exempt All other real estate: taxable	Residential rental: exempt Bare land: exempt New housing: zero-rated All other real estate: taxable
Local Transport	Taxable	Exempt
Oil and Gas	All taxable	Specified products zero-rated
International Transport	zero-rated	zero-rated

** Services provided by public education and health providers in the KSA are not expected to be subject to VAT, as Government entities will in many cases not be carrying on a business for VAT purposes.*

VAT effects and obligations

It is clear that VAT will have a wide impact across all business sectors – even those who operate in a sector in which exemptions or zero-rates apply to some transactions. The release of the draft regulations gives us insight into these effects in more detail.

1. Core obligations

As an immediate step, all Saudi resident businesses will be required to assess their VAT-relevant turnover and, if required, to register for VAT with GAZT by 20 December 2017 at the latest. The main VAT obligations will take effect from 1 January 2018: VAT must be charged on supplies made after this date, and tax invoices must be issued for all taxable supplies, showing a range of mandatory information. Each business will need to calculate the net VAT due over monthly or quarterly tax periods, with electronic submission of the VAT return and the payment due for that period required by the end of the following month.

2. Relief for small to medium sized enterprises

GAZT has acknowledged during public information sessions that the obligations of the new VAT system will be felt particularly by smaller businesses.

Indeed, the draft regulations allow for the administrative burden to be eased from SMEs:

- Whilst the standard VAT registration threshold is SAR 375,000, businesses with annual turnover less than SAR 1,000,000 are initially exempt from the mandatory registration requirement until January 2019, giving the smallest businesses more time to become ready for new rules;
- VAT reporting can be carried out on a 'cash accounting' basis for small businesses with turnover of less than SAR 5,000,000 – removing the administrative obligation of invoice accounting, and the additional VAT burden arising from unpaid customer debts for these businesses;
- All businesses with annual turnover less than SAR 40,000,000 may use a quarterly filing period, significantly reducing the number of VAT returns required per year and extending the time for making payment of VAT.

3. Deductions of VAT

A deduction may be made for any VAT inclusive purchases

in the period the purchase was made – without an onwards sale or supply being made at the time. Purchases however must ultimately relate to taxable supplies to be deductible. Where businesses make both taxable and exempt supplies, a proportional deduction calculation must be made: by default, this is calculated based on the value of taxable and exempt supplies made, but other methods may be used following agreement of these with GAZT. In all cases, any VAT deduction requires the purchaser to hold a copy of a valid tax invoice issued by the supplier; therefore, the process of collecting and reviewing purchase invoices will be a vital step for taxpayers.

Deductions of VAT will not be permitted for entertaining, catering, and purchase or expenditure on 'restricted' motor cars – i.e. those available for any private use. VAT incurred on these items will be an additional cost to business. Where VAT deductions exceed VAT charged on supplies – and the taxpayer is in a VAT repayment position, a refund of this VAT can be requested from GAZT, or the balance may be offset or carried forward. Refunds of VAT will be particularly important for exporters and other businesses who expect to often be in a VAT repayment position.

4. Audit and assessment

The regulations set out that GAZT has broad powers to request information from taxpayers, and to carry out examinations or audits onsite or offsite. A formal VAT assessment may be issued by GAZT at any time up to five full calendar years following any tax period. In certain cases, this can be extended to 20 years.

The review process contained in the draft regulations has now been changed to align this with the broader appeal process for other taxes. Taxpayers will need to be aware of their rights and the time limits for appealing GAZT decisions. As an alternative, the regulations do however allow for a mediation process for tax disputes - but only in cases where both the taxpayer and GAZT agree to this.

5. Special rules for certain sectors and transactions

Outside of the standard obligations and transactions, the regulations consider many special and complex areas – businesses should be aware of these and the potential impacts. For example, the regulations provide rules describing:

- the use of a margin VAT calculation for suppliers of eligible used goods (to be defined in due course but expected to include motor vehicles);

- the sale of vouchers and use of those vouchers when purchasing goods or services;
- obligations of intermediaries, particularly for transactions in the digital economy;
- circumstances where VAT is not chargeable on the transfer of an economic activity (similar to transfer of going concern rules); and
- procedures for non-resident businesses and tourists to recover VAT suffered on purchases in Saudi Arabia.

6. Transitional rules

In addition to the one-year extension for smaller business to register for VAT, the regulations include a number of transitional provisions which will be important to note for transactions spanning the introduction of VAT.

In particular, the regulations confirm that VAT relief may apply to existing contracts already entered into by 30 May 2017 - and where certain conditions are met, that VAT need not be chargeable on these contracts until the end of 2018. As existing prices are generally considered inclusive of the VAT (unless the contract is "VAT exclusive" or allows for VAT to be added to the price), this relief will provide some additional time for businesses to agree new prices and does not apply in all cases; businesses should review contracts and prepare for VAT inclusive pricing now.

Our view

The publication of detailed regulations is a welcome development, allowing businesses to understand the detail of the domestic VAT rules, and the structure and makeup of the formal legal framework. Doubtless, there will be some areas where questions remain – but future taxpayers now all have the full information they should expect to use in their VAT readiness preparations.

From the publication of these final Regulations, there are four months remaining until VAT comes into force in Saudi Arabia. The coming months are critical to ensure your preparations for VAT are in order; and to ensure you have sufficient time to implement changes, test your processes and ensure readiness across your organization.

Where businesses are not ready for VAT, this may cause significant business disruption – such as the inability to fulfill orders, raise invoices, or approve purchases made after 1 January 2018. From a financial and reputational perspective, the penalty framework detailed in the VAT law shows that penalties can be severe for VAT errors or non-compliance.

Help needed?

Deloitte has created a complete set of 'go to market' materials, and a tailored range of tested tools and enablers which will help you understand current state impacts and the extent of work required to meet the challenges of the implementation ahead. The full range of materials can be accessed on the following [link](#)

In addition, we highly recommend you download our 'VAT in the GCC guide' mobile app to access all of our materials and get instant live push notifications of any VAT developments. The app is free of charge and is available for download on the [Apple Store](#) and [Google Play](#) stores.

Full Legislation

Deloitte has created bilingual replications of the different laws for its clients' information. To access the documents, please follow this [link](#)

Middle East VAT Services

VAT experience combined with longstanding local relationships. Strong regional presence across the GCC to allow for specific, practical insight into VAT implementation.

Contacts

Justin Whitehouse
Indirect Tax Leader
jwhitehouse@deloitte.com

Bonny Teo
Senior Manager, Indirect Tax
boteo@deloitte.com

Matthew B. Parkes
International Gulf VAT Desk
matparkes@deloitte.com

Aamer Bhatti
Senior Manager, Indirect Tax
aabhatti@deloitte.com

Nauman Ahmed
Senior Director, Tax – Al-Khobar
and Middle East Tax Leader
nahmed@deloitte.com

Nasser Sagga
Partner, Tax – Al-Khobar
nsagga@deloitte.com

Wissam Merhej
Senior Director, Tax - Riyadh
wmerhej@deloitte.com

Farhan Farouk
Senior Director, Tax - Jeddah
ffarouk@deloitte.com

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte & Touche (M.E.) would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte & Touche (M.E.) accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 225,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTL) and is a leading professional services firm established in the Middle East region with uninterrupted presence since 1926. Deloitte provides audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with more than 3,300 partners, directors and staff. It is a Tier 1 Tax advisor in the GCC region since 2010 (according to the International Tax Review World Tax Rankings). It has also received numerous awards in the last few years which include best employer in the Middle East, best consulting firm, the Middle East Training & Development Excellence Award by the Institute of Chartered Accountants in England and Wales (ICAEW), as well as the best CSR integrated organization.

© 2017 Deloitte & Touche (M.E.). All rights reserved.