



# Guideline **Business promotions**



The Zakat, Tax and Customs Authority ("ZATCA", "Authority") has issued this Guide for the purpose of clarifying certain tax treatments concerning the implementation of the statutory provisions in force as of the Guide's issue date. The content of this Guide shall not be considered as an amendment to any of the provisions of the Laws and Regulations applicable in the Kingdom.

Furthermore, the Authority would like to highlight that the clarifications and indicative tax treatments prescribed in this Guide, where applicable, shall be implemented by the Authority in light of the relevant statutory texts. Where any clarification, interpretation or content provided in this Guide is modified - in relation to unchanged statutory text - the updated indicative tax treatment shall then be applicable prospectively, in respect of transactions made after the publication date of the updated version of the Guide on the Authority's website.



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## 1. INTRODUCTION

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

The Unified VAT Agreement for the Cooperation Council for the Unified Arab States of the Gulf (the "VAT Agreement") was approved by KSA by a Royal Decree No. M/51, dated 3 / 5 / 1438H. Pursuant to the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia issued the VAT Law under Royal Decree No. M/113 dated 2 / 11 / 1438H ("the VAT Law") and its corresponding Implementing Regulations were subsequently issued by the Board of Directors of the General Authority of Zakat and Tax -former name- the Zakat, Tax and Customs Authority («ZATCA») - current name- by Resolution No. 3839 dated 14 / 12 / 1438H ("the Implementing Regulations")

### 1.2. Zakat, Tax and Customs Authority («ZATCA»)

ZATCA, 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; ZATCA also has the power to levy penalties for noncompliance with legal provisions relating to VAT.

### 1.3. What is Value Added Tax?

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



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

- Collect VAT from their Customers equal to a specified percentage of each eligible sale; and
- Pay VAT to their suppliers, 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 %15 VAT charge - assuming a standard case - is assessed and added to the final sales price. The Taxable Persons will account for that %15 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 that Taxable Persons collect on their sales is called Output VAT.

The same will apply to purchase transactions done by Persons subject to VAT, in that VAT will be added at the rate of %15 to purchases of goods or services done by Persons subject to the 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 in the KSA VAT Manual at [Zatca.gov.sa](http://Zatca.gov.sa)

#### **1.4. THIS GUIDELINE**

The purpose of this guideline is to provide further clarification to Taxpayers regarding the VAT implications of common promotional activities carried out by Taxable Persons. This applies equally to promotional activities in retail and other types of trade with consumers or individuals, and in "business-to-business" trade.

This guideline represents ZATCA's views on the application and fair treatment of the Unified VAT Agreement, the VAT Law and the Implementing Regulations as of the date of this guideline.





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

## 2. Definitions of the main terms used

The **Value** of a supply is defined as “the value of Consideration less the Tax<sup>(1)</sup>” collected or to be collected in respect of that supply. The Value of a supply is therefore expressed as the VAT-exclusive transaction price. This concept is explored in more detail in section 4 of this guide.

**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>(2)</sup>” The Consideration is therefore expressed as a VAT-inclusive sale amount. It may include monetary or non-monetary Consideration, or both. This concept is explored in more detail in section 4 of this guide.

The **price** is the paid or payable amount for a supply. This term is not defined for VAT purposes, but the term is used within the VAT laws. Unless expressly referred to as a “VAT-exclusive price”, the standard commercial interpretation of price is the same as outlined above for the term “Consideration”.

A **published price** is not a defined term for VAT purposes. The Authority considers this to be any price which is published (either physically or electronically), or which is displayed to the public in a retail context. The published price, or any price initially quoted or asked for by a supplier, may differ from the final price agreed between the supplier and Customer.

**Third Party Consideration** is not a defined term for VAT purposes. It is used in this guide to refer to any Consideration paid or payable in respect of a supply of goods or services by a person who is not the Customer for that supply.

**Customer** is defined as “A Person who receives Goods or Services<sup>(3)</sup>”.

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(1) Article 26(2), Value of Supply of Goods and Services, Unified VAT Agreement

(2) Article 1, Definitions, Unified VAT Agreement

(3) Article 1, Definitions, Unified VAT Agreement



The Fair Market Value of a supply is defined as the "Consideration that would be payable for a Similar and Contemporaneous Supply of Goods or services freely offered and made between Persons who are not Related Persons."<sup>(4)</sup>

**Related persons** is a defined term, specified in the Unified VAT Agreement as:

"Two or more Persons where one of them has supervisory or directive control over the others in such a way that he has administrative power that enables him to influence the business of the other Persons from a financial, economic or regulatory aspect. This includes Persons who are subject to the authority of a third Person that enables him to control their businesses from the financial, economic or regulatory aspect"<sup>(5)</sup>.

The Implementing Regulations provide further detail, in a KSA context, on specific cases in which two or more persons are considered as Related Persons for VAT purposes. Examples likely to arise in a business promotions context include:

- **Family members:** Natural persons and their family relatives (including direct family members, and all extended relatives to the fourth degree);
- **Employers and employees:** including any partners operating in a partnership;
- **Business owners:** A legal person, or a natural person that holds over 50% of value or voting rights in that legal person, or
- **Commonly owned companies:** Two legal persons, where over 50% of the voting rights or value in each is held by the same person or persons.<sup>(6)</sup>

A **Nominal Supply** is an event which does not involve a supply of goods and services for Consideration, but is deemed by the VAT law to be a supply for VAT purposes. The term is 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."<sup>(7)</sup> The application of nominal supplies in a business promotions context is discussed further in section 9 of this guideline.

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(4) Article 38(2), Fair Market Value, Implementing Regulations (a KSA specific definition as enabled by Article 26(1), Value of Supply of Goods and Services, Unified VAT Agreement)

(5) Article 1, Definitions, Unified VAT Agreement

(6) Full details within Article 37, Related Persons, Implementing Regulations

(7) Article 1, Definitions, Unified VAT Agreement



A **Voucher** is a defined term for VAT purposes. It is “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<sup>(8)</sup>”. Vouchers are discussed in further detail in section 7 of this guideline.

A **Face Value Voucher** is defined as “a Voucher which is issued with a specific monetary redemption value indicated on the Voucher or in related documentation.”<sup>(9)</sup>

A **non-qualifying Voucher** is not a defined term for VAT purposes. It is used within this guideline to describe any document, instrument or offer which is commercially described as a “Voucher” but does not constitute a Voucher under the definition above. It is also possible that another Person could receive benefit from a supply of goods or services, although the Person is not the Customer. Such a Person is considered a Beneficiary for the purposes of this guideline.

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(8) Article 19 (3), Issue or Supply of a Voucher, Implementing Regulations

(9) Article 19 (4), Issue or Supply of a Voucher, Implementing Regulations



## 3. Economic Activity and Registration

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

An Economic Activity may be carried out equally by natural Persons or legal Persons.

It will be presumed that a legal person (company) that has a regular activity making supplies carries on an Economic Activity.

Natural persons may perform certain transactions as part of their economic activity, or as part of their private activities. There are therefore specific rules to determine whether or not a natural person falls within the scope of VAT.

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

### 3.2. MANDATORY REGISTRATION

Registration is mandatory for all persons whose annual turnover exceeds a certain threshold. If the total Value of a person's taxable supplies during any 12 months exceeds SAR 375,000, (the "mandatory VAT registration threshold"), that person must register for VAT<sup>(10)</sup> on the supplies made, subject to the transitional provisions provided for in the Implementing Regulations.

Taxable Supplies do not include:

- Exempt supplies- such as exempt financial services or residential rental which qualifies for VAT exemption;
- Supplies taking place outside the scope of VAT in any GCC State; or
- Revenues on sales of capital assets - a capital asset is defined as an asset allocated for long-term business use<sup>11</sup>.

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<sup>10)</sup> Article 3, Mandatory registration - Supplies exceed the Mandatory Registration Threshold, Implementing Regulations

<sup>(11)</sup> Article 1, Definitions, Unified VAT Agreement.



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

- Persons who are not resident in the Kingdom of Saudi Arabia are required to pay the VAT in respect of supplies made or received by them in the Kingdom of Saudi Arabia and to register for VAT irrespective of the value of the supplies for which they are obliged to collect and pay the VAT<sup>(12)</sup>.
- During a transitional period up to 1 January 2019, businesses will only be required to register where annual turnover exceeds SAR 1,000,000, and an application for registration must be submitted no later than 20 December 2017<sup>(13)</sup>. Starting from 2019, the mandatory registration shall be required when annual turnover exceeds SAR 375,000 as required in the Unified VAT Agreement. For persons exceeding that annual turnover in the 2019 calendar year, an application an application for registration must be submitted no later than 20 December 2018.

More information on mandatory registration for VAT is contained at [zatca.gov.sa](http://zatca.gov.sa).

### 3.3. Optional VAT registration

Any Resident Person in the Kingdom of Saudi Arabia who has Taxable Supplies or taxable expenses exceeding the "Optional VAT Registration Threshold" of SAR 187,500 in a twelve-month period may register for VAT on voluntary basis<sup>(14)</sup>.

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

More information on voluntary registration for VAT is contained at [zatca.gov.sa](http://zatca.gov.sa).

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

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

(14) Article 7, Voluntary Registration, Implementing Regulations



## 4. Valuation of Supplies

The VAT due on any supply of goods or services is based on the Value of that supply. The Value of supply is defined as “the value of Consideration less the Tax and includes the value of the noncash portion of the Consideration determined according to the fair market value<sup>(15)</sup>”.

The Value for VAT purposes is therefore the VAT-exclusive amount of any monetary or nonmonetary Consideration paid or payable for that supply.

The Value of supply is calculated from the Consideration using the following formula:

$$\begin{array}{rcccl} \text{Value of supply} & & \text{Consideration payable} & & 100 \\ \text{(VAT-exclusive price)} & = & \text{(VAT-inclusive price)} & \times & \frac{\quad}{115} \end{array}$$

### 4.1 Consideration

#### 4.1.1 Monetary Consideration

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>(16)</sup>. In most cases, the Consideration to be collected will be monetary (in Saudi riyals or any other national currency). Monetary Consideration can be transferred in physical cash or through a bank or electronic transfer denoted in that currency.

The Consideration payable is often referred to as the “price” for the supply of goods or services. A price is able to be agreed or expressed in any national currency. The Taxable Person making the supply must convert the relevant amount of VAT payable on the supply to Saudi riyals for VAT reporting purposes (using the appropriate daily exchange rate issued by SAMA<sup>(17)</sup>) and show this on the Tax Invoice issued to the Customer<sup>(18)</sup>.

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(15) Article 26(2), Value of Supply of Goods and Services, Unified VAT Agreement

(16) Article 1, Definitions, Unified VAT Agreement

(17) Article 61, Currency Conversion, Implementing Regulations. The amount must be converted to riyal using the daily rate prescribed by the Saudi Arabian Monetary Authority on the date that the relevant Tax becomes due in accordance with the Agreement and the Law.

(18) Article 53(5), Tax Invoices, Implementing Regulations. Note that in some cases the Taxable Person may instead be eligible to issue a simplified Tax Invoice.



Alternative currencies - such as digital currency or branded currencies - are not a national currency. These are viewed as a type of non-monetary Consideration and should be valued based on their Fair Market Value.

#### 4.1.2. Non-monetary Consideration

Non-monetary Consideration is anything else provided to the Supplier as a form of payment in respect of the supply. This could be the provision of goods, the provision of services, or the agreement not to do something (which is the provision of a service).

The non-monetary Consideration is valued at its Fair Market Value, in addition to any monetary Consideration payable.

##### **Trade in of goods**

A promotional offer where a Customer "trades in" a product and purchases a new one, resulting in a discount to the sale price, is a common example of partial payment by non-monetary Consideration.

##### **Example (1):**

Al Safa Electronics sells a new flat-screen television model in its store for SAR 1,200 (including VAT). It offers a promotion to Customers allowing them to trade in their existing television for a reduction to the cash price payable.

Waleed brings his existing television to Al Safa Electronics. The store manager assesses the television and offers Waleed a SAR 200 discount in exchange for the television. This indicates that the Fair Market Value of the used television is SAR 200.

Al Safa Electronics has supplied a television to Waleed for SAR 1,200, being SAR 1,000 of monetary Consideration and SAR 200 of non-monetary Consideration. The VAT should be calculated based on the fraction of the total Consideration ( $\frac{15}{115} \times \text{SAR } 1,200$ , being SAR 156.52).

If the Fair Market Value of the traded in goods is not clearly established and evidenced, the Value of the goods for VAT purposes will be assumed to be the value of any discount offered by the supplier for the traded in goods.



In cases where traded in goods clearly have a trivial or zero Fair Market Value, then the traded in goods will not be considered as non-monetary Consideration. Any reduction in sale price will be a discount. The supplier should be able to evidence that the traded in goods do not have a Value.

**Example (2):**

Al Tawfeeq Auto Supplies offers premium off-road tyres for SAR 1,050 each. If a Customer brings in any four used tyres, Al Tawfeeq Auto Supplies will offer to sell four new premium tyres for SAR 4,000. The used tyres have a negligible resale Value, if any, and in all cases Al Tawfeeq Auto Supplies disposes of the used tyres by providing them to a waste company for no fee (so that the rubber will be sustainably reused).

In this case, the "traded in" tyres do not have a sufficient Value to be considered as non-monetary Consideration. The sale offer by Al Tawfeeq Auto Supplies is a discount to the Consideration payable. It should calculate VAT based on total monetary Consideration only (SAR 521.73, being  $15/115 \times \text{SAR } 4,000$ ).

**Barter**

A pure barter transaction occurs when parties agree to exchange goods or services without the use of any monetary Consideration.

If both persons are Taxable Persons, each supply within the barter can be a taxable supply (with the same Fair Market Value).

**Example (3):**

Fouad is a chartered accountant in Al Khobar, who is registered for VAT. One of his clients, Falcon Group, allows him regular use of an office in its building to carry on his business without any cash payment, provided he prepares the monthly accounts for the Group in return.





This is a supply of accounting services by Fouad, in exchange for a corresponding supply of services (the use of commercial property) by Falcon Group. Both supplies are subject to VAT. Fouad and Falcon Group agree the appropriate Fair Market Value is SAR 2,100 (based on the regular cost to prepare monthly accounts). Both Fouad and Falcon Group provide monthly Tax Invoices showing the Value of supply (SAR 2,000 plus SAR 300 of VAT), but noting that payment is settled with reciprocal non-monetary Consideration.

Where both parties to the barter transaction are unrelated and entitled to a full Input Tax deduction in relation to the supply, and the parties agree on a monetary Value of the goods or services provided as Consideration by each of the parties, this will generally be accepted to be the Fair Market Value of each supply. In all other cases, Fair Market Value of each supply should be used based on a similar and contemporaneous supply, as described in section 4.5 of this guide<sup>(19)</sup>.

#### **Acts that do not constitute non-monetary Consideration:**

Promotions may in some cases require a Customer to do something in order to achieve a discount. Often, such a requirement is an insignificant act with either no Value or a trivial Value, such as:

- Purchasing a certain number or amount of goods or services (i.e. to obtain a volume discount);
- Answering a competition question correctly;
- Bringing re-usable packaging, such as a carrier bag or coffee mug;
- Making a post on the supplier's social media account.

In these cases, the act performed by the Customer will not generally be viewed as additional nonmonetary Consideration. The supplier should account for VAT based on the discounted price.

#### **Example (4):**

A coffee shop in a popular Riyadh shopping mall offers a discount of SAR 1 on any hot drink, when Customers bring a reusable coffee mug. The Value of this act is not material and does not constitute non-monetary Consideration. The coffee shop is selling coffee for a small discount, and should report VAT on the basis of the monetary Consideration received.

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(19) Article 38 (1), Fair Market Value, Implementing Regulations



## 4.2. Expenses, fees and other taxes

The Unified VAT Agreement specifies that expenses, fees and other taxes, when charged to the Customer, are included in the Value for VAT purposes:

The value of the Supply shall include all the expenses imposed by the Taxable Supplier on the Customer, the fees due as a result of the Supply and all the Taxes including Excise Tax, but excluding VAT.<sup>(20)</sup>

The calculation of VAT will depend on whether the fees are expressed to the market as VAT inclusive, or are agreed to be VAT-exclusive in business agreements.

### Example (5):

Good Sleep Company, a retail store, sells a bed to an individual for SAR 3,500, and charges a fee for a courier to carry out delivery of SAR 500. All prices are expressed as VAT inclusive. The total Consideration payable for the supply includes the delivery fee (SAR 4,000). The total Value of the supply reported by the Supplier is the VAT exclusive amount, being SAR 3,809.52.

### Example (6):

Al Barq Printing has an agreement with a business Customer for printing documents, which specifies an additional fee of SAR 250 (excluding VAT) for all express orders required on Friday or Saturday. The Customer asks for an urgent print job to be carried out with a standard Value of SAR 3,500. The total Value of the supply is SAR 3,750, including the additional fee. Al Barq adds VAT, at an additional 15%, to this Value (being SAR 562.5).

If a supplier incurs expenses in making a supply, but does not charge these to the Customer, these do not form part of the Value of that supply.

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(20) Article 26 (3), Value of Supply of Goods and Services, Unified VAT Agreement



### Example (7):

Good Sleep Company offers free delivery on any bed sale that is valued over SAR 5,000. A Customer purchases a bed for the cash price of SAR 6,000. Good Sleep Company incurs the expense of the courier for the delivery, but has agreed to provide the bed with delivery for a combined price of SAR 6,000. VAT is calculated based on the total Consideration (SAR 782.60, being  $15/115 \times \text{SAR } 6,000$ ).

Further information on goods and services sold for a combined price is in section 6 of this guide.

### 4.3. Third Party Consideration

Consideration is able to be paid to the Supplier by the Customer or by any other persons. Consideration paid or payable by a person other than the Customer is usually referred to as "Third Party Consideration". In determining the total Value of supply and VAT due, Consideration paid by third parties must be included in addition to any Consideration paid by the Customer.

### Example (8):

The coffee shop situated in Riyadh mall offers a SAR 5 discount on any hot drink to Customers who show a receipt from a purchase from any another shop in the mall on that day. This is a promotion run by the mall's management as an incentive to shoppers. The mall's management company agrees to reimburse the coffee shop with SAR 4 for each discount given.

In this scenario, the agreement between the parties results in the SAR 4 received from the management company being Third Party Consideration for the Customer's beverage. The coffee shop must calculate and report VAT based on the monetary Consideration from the Customer in addition to the Third Party Consideration from the mall's management company.

### Government subsidies

A subsidy paid by any KSA government ministry or authority to a Supplier in respect of a supply of goods or services does not contribute to the Value of supply (in the same way as Third Party Consideration from any other third party)<sup>(21)</sup>.

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(21) Article 26, Value of Supply of Goods and Services, Unified VAT Agreement. Government subsidies can still technically be a form of Consideration for a supply, but are explicitly reduced from the total value of supply.



### Example (9):

The Ministry of Electricity and Water provides a subsidy to a Saudi utility provider to provide water and electricity to citizens in remote areas. The citizens pay the normal market price offered in major cities.

The Saudi utility provider calculates and report VAT based on the monetary Consideration received from the Customers. The Government subsidy is not added to the Value of the supply and is therefore not subject to any VAT charge.

## 4.4. Adjustment to Consideration

The agreed Consideration payable for a supply of goods or services may be adjusted by a later event, in any of the following cases:

- a. the Supply is cancelled or terminated after the Supply has taken place or been treated as taking place, in whole or in part,
- b. there is a material change or alteration to the nature of the Supply resulting in a change in the Tax charged,
- c. the previously agreed Consideration for the Supply is altered for any reason, including due to an offer of an additional discount after the sale was made,
- d. the Goods or services or part thereof are returned to the Supplier and the Supplier accepts such return.<sup>(22)</sup>

In these circumstances, the adjustment to the Consideration will result in an increase or decrease to the Value of the supply for VAT purposes. A Taxable Person who adjusts the supply's Consideration must include this adjustment in a credit or debit note correcting the original Tax Invoice<sup>(23)</sup>.

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(22) Article 40, Adjustment to value of a Supply, Implementing Regulations

(23) Article 57, Amendment of Invoices (Credit Notes), Unified VAT Agreement and Article 54, Credit notes and debit notes, Implementing Regulations



For VAT purposes, the credit note reflects a decreasing adjustment to Consideration to a previously issued Tax Invoice for a supply of goods or services by the supplier.

Conversely, a debit note reflects an increasing adjustment to Consideration to a previously issued Tax Invoice for a supply of goods or services by the supplier.

#### 4.4.1 Adjustment to output Tax

In the event a credit note or debit note is issued, this will affect the calculation of the Supplier's Output Tax (and Customer's Deductible Input Tax in cases where the Customer is a Taxable Person).

The Supplier must adjust Output Tax<sup>(24)</sup>:

<b>1</b>	If the credit note is issued, or the upwards adjustment to Consideration, occurred in the same Tax Period in which the original supply was made, or before the Tax Return for that original supply has been filed:	By adjusting the Output Tax (upwards or downwards) for the Tax Period in which the original supply took place.
<b>2</b>	If a credit note is issued after the Tax Return for that original supply has been filed:	By adjusting the Output Tax (downwards) for the Tax Period in which the Credit note is issued, or the event giving rise to the adjustment took place, whichever is later.
<b>3</b>	If an upwards adjustment to Consideration (resulting in a debit note) is made after the Tax Return for that original supply has been filed:	By adjusting the Output Tax (upwards) for the Tax Period in which the event giving rise to the adjustment took place.

If the Customer was a Taxable Person on the date of the original supply, and has previously deducted input tax on that supply, it must correct its Input Tax to reflect the Tax amount calculated on the change in Consideration in the Tax Period in which the Credit Note or Debit Note is issued<sup>(25)</sup>.

(24) Article 40, Adjustment to value of a Supply, Implementing Regulations

(25) Article 40 (6), Adjustment to value of a Supply, Implementing Regulations



#### **Example (10):**

An industrial manufacturer pays a deposit to a construction company for building a new warehouse. The construction company issues a Tax Invoice for the portion of payment received in advance.

Before the project begins, the construction company advises it cannot proceed with the project. The supply is cancelled and a credit note is issued in respect of the earlier Tax Invoice. The construction company may adjust the Output Tax in the period in which the credit note is issued.

#### **Example (11):**

The United Arab General Trading Company issued an invoice on 1 November 2021 for a delivery of a number of items to Golden Arrow Food Distribution Company. During a review of pricing in April 2022, it discovers that it used an incorrect price for two items, resulting in charging less than the agreed price. It agrees with the Customer to issue a debit note to reflect the additional amount due for these items. The Output Tax must be reported in the period in April 2022, when the event (the pricing review, and agreement of additional Consideration with the Customer) took place.

### **4.5. Applying Fair Market Value to supplies**

Section 4.1.2 of this guide describes that the “Fair Market Value” is applied in cases where nonmonetary consideration is provided, to value that Consideration.

In certain circumstances, the Value of a supply may be deemed for VAT purposes to be at Fair Market Value, rather than the actual Consideration paid or payable. This provision prevents Related Persons agreeing an artificially reduced price and a corresponding reduction in VAT payable.



### 4.5.1. Criteria

The Fair Market Value must apply where all of the following three conditions are met<sup>(26)</sup>:

- a. a Supply is made between Related Persons [as defined in the Agreement or in the Regulations

Legal or natural Persons are considered "Related" for VAT purposes, if they are under common control, and in other specific cases set out in Implementing Regulations.

Examples of Related Persons in a business promotions context include:

- Family members: Natural persons and their family relatives (including direct family members, and all extended relatives to the fourth degree);
- Employers and employees: including any partners operating in a partnership;
- Business owners: A legal person, and a natural person that holds over 50% of value or voting rights in that legal person, or
- Commonly owned companies: Two legal persons, where over 50% of the voting rights
- or value in each is held by the same person or persons.<sup>(27)</sup>

- b. the Consideration for the Supply is less than the Fair Market Value of the Supply, Use of the Fair Market Value is only required if the agreed Consideration is lower than that Fair Market Value. If the Consideration is equal to or above the Fair Market Value, the supply is valued as normal, based on the Consideration paid or payable.

- c. the Customer is not entitled to a full Input Tax deduction in relation to the Supply.

The use of Fair Market Value is not required in cases where the Customer is fully entitled to deduct any VAT charged on that supply. This requirement looks at the Customer's ability to deduct on that individual supply - it does not require the Customer to be fully eligible to VAT deduction on all supplies.

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(26) Article 38, Fair Market Value, Implementing Regulations

(27) Article 38, Fair Market Value, Implementing Regulations



### Example (12):

Summit International Finance is a licensed finance company in the KSA providing advisory services (subject to VAT at 15%) and also earning financing income on an implicit margin (VAT exempt). It deducts all VAT on expenditures attributed to its advisory activities, and some VAT on overheads based on a proportional deduction calculation.

Summit Office Services is a related company offering clerical and administrative services to third parties. It agrees to charge a heavily discounted fee on two invoices:

#### **(a) collation and publication of an advisory report for a Customer;**

The invoice relating to the Customer advisory reports is directly attributed to Summit International Finance's taxable supplies, and VAT is deductible in full. Summit Office Services is not required to use the Fair Market Value on this supply, despite the first two criteria being met.

#### **(b) design and administrative services for establishing a general company website.**

This invoice is a general business overhead of Summit International Finance, and is not eligible for deduction in full. Summit Office Services must calculate and report Output VAT based on the Fair Market Value for these services, regardless of the Consideration agreed between the parties for these services.

### 4.5.2. Calculating Fair Market Value

In all cases where the Fair Market Value must be established, this is calculated with reference to the Consideration that would be payable for a similar and contemporaneous supply of Goods or services freely offered and made between Persons who are not Related Persons.





The Implementing Regulations set out that a Similar and Contemporaneous Supply:

“means another Supply of Goods or services supplied at the same time that are either identical to, or closely or substantially resemble, the Goods and services being supplied.

This shall be ascertained based on all relevant factors including the characteristics, quality, quantity of the Goods and services, the place and date of Supply and reputation of the Supplier.”<sup>(28)</sup>

The Fair Market Value should be based on the price that could be obtained by unrelated third party Customers in the normal course of events:

- for those goods and services;
- at that time; and
- with those conditions of sale.

**Example (13):**

A fashion store offers a discount of 40% to its Employees from the Published price. The maximum discount the store usually offers to the public is a 20% discount. An Employee purchases a suit with a published price of SAR 2,500 (including VAT), and pays SAR 1,500. Earlier that year, the store had offered a similar suit for SAR 1,200 in a special clearance sale.

In this case, the Similar and Contemporaneous Supply would have the price which would be offered to the public at that time (being a 20% discount, or a VAT inclusive price of SAR 2,000). This makes the Fair Market Value SAR 1,904.76 (the VAT exclusive Value). The suit offered during a clearance sale, whilst being similar in quality, is not a contemporaneous supply as it takes place under different circumstances.

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<sup>(28)</sup> Article 38 (3), Fair Market Value, Implementing Regulations



The store must calculate and report VAT based on the Fair Market Value, being  $15\% \times 1904.76$  or SAR 285.59. The Employee still pays SAR 1,500 (the store will bear the tax difference), which includes SAR 285.59 of VAT.

In some cases, the Value of a Similar and Contemporaneous Supply may not be able to be ascertained (such as unusual goods or services not supplied elsewhere in the KSA market).

In these cases, the Supplier or the Authority "may prescribe an alternative Fair Market Value based on:

- other comparable transactions which resemble the supply of Goods and services, or
- the costs of the Supplier to make the supply,

whichever is higher." <sup>(29)</sup>

In such cases, the decision of the Authority is to prevail in the event of a difference in valuation.

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(29) Article 38 (4), Fair Market Value, Implementing Regulations



## 5. Pricing and Discounts

### 5.1. Standard retail prices

A supplier will often specify a price it requests as Consideration for goods and services. In a retail context, this may be physically displayed to the public in a shop, in published material or online.

In some cases the supplier or a third party such as a manufacturer may set a "standard retail price" or a "recommended retail price" for particular goods and services.

In all cases, it is required that "published prices in the local market for Goods and Services must include VAT<sup>(30)</sup>". The Authority considers that this applies to any prices which are physically or electronically published, or are displayed to the public in a retail environment.

Individually agreed prices between a supplier and Customer may be stated as a VAT-exclusive price.

A published price might not be the final Consideration agreed between the parties for the sale of goods or services. The VAT should in all cases be calculated based on the total Consideration paid or payable, if this is different from the published price (subject to any supplies for which fair market valuation is required as described in section 4.5 of this guideline).

#### Example (14):

A hardware store sells outdoor lights to the public for a standard retail price of SAR 230 each (this is the VAT-inclusive price, including SAR 30 of VAT). It agrees with a landscaping developer to sell 20 of these lights for SAR 3,675. It calculates VAT on the total Consideration payable (VAT of SAR 479.34, being  $15/115 \times \text{SAR } 3,675$ ), shows this on the Tax Invoice issued to the developer, and reports this amount as Output VAT.

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



## 5.2. Discounted prices

A “discounted price” is a commercial term to describe a selling price which is decreased from an earlier selling price. In these cases, VAT is due on the “discounted” Consideration paid or payable for the supply.

### Example (15):

A fashion store has a display showing designer shirts with a “normal” retail price of SAR 250, but offering all Customers a discounted price of SAR 200. If the Customer buys a shirt under the discount offer, VAT is calculated based on the discounted Consideration received (VAT of SAR 26.08, being  $15/115 \times \text{SAR } 200$ ).

A discount may also be provided after an amount of Consideration is agreed between the supplier and the Customer, or indeed after one or all of the following events:

- the supply of goods or services is made;
- the invoice is issued by the supplier and
- the initially agreed Consideration is paid.

In all cases, the discount represents a reduction to the total Consideration payable. The Unified VAT Agreement expressly confirms:

“The value of the Supply is reduced by - discounts in prices and deductions granted to the Customer”.<sup>(31)</sup>

### Example (16):

Ala Al-Din Supply Company has entered an agreement to sell fertilizer to a large farming Customer at SAR 4.28 per kilogram (excluding VAT). On 21 May, it delivers 7,500 kilograms - which, based on the agreement with the Customer - should be priced at 32,100 (plus VAT). The manager of Ala Al-Din gives a further discount to make the VAT exclusive price payable SAR 32,000. VAT is calculated at %15 of this final discounted price (being SAR 4,800) and shown on the Tax Invoice issued to the Customer.

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<sup>(31)</sup> Article 26 (6)(a), Value of Supply of Goods and Services, Unified VAT Agreement



### 5.2.1. Retrospective discounts

If a discount to the Consideration payable is provided after a Tax Invoice has been issued by the supplier, the supplier must issue a tax credit note to record the change to Consideration. A retrospective discount may also be described as a “cash rebate” - in cases where the Supplier repays any Consideration initially paid by the Customer.

In the event a tax credit note is issued, this will affect the calculation of the Supplier’s Output Tax (and Customer’s Deductible Input Tax cases where the Customer is a Taxable Person).

The Supplier must adjust Output Tax, and the Customer must deduct any input tax previously deducted, in accordance with the process described in section 4.4 of this guideline<sup>(32)</sup>:

#### Example (17):

On 21 June 2021, Best Hotel in Jeddah issues a Tax Invoice to a corporate guest for use of a meeting room during a conference for SAR 7,000 (including VAT of SAR 1,050). The corporate guest receives the invoice and notes that the price is higher than a competitor hotel’s published price. The corporate guest requests a discount from Best Hotel to SAR 6,000. Best Hotel agrees, and issues a credit note for SAR 1,000 (including a VAT credit of SAR 150) on June 26.

Best Hotel calculates the net VAT from both tax invoice and credit note to be SAR 900. (Note: This is also the VAT component within the reduced Consideration of SAR 6,000). Best Hotel includes Output Tax of SAR 900 in the VAT return for that quarter. Likewise, this is the maximum total amount for which the corporate guest is eligible for Input Tax deduction.

#### Example (18):

The United Arab General Trading Company issued an invoice on 1 November 2021 for a delivery of a number of items to Golden Arrow Food Distribution Company. During a review of pricing in April 2022, it discovers that it used an incorrect price for two items, resulting in charging more than the agreed price. It issues a credit note on 30 April 2022 to reflect the reduction to Consideration payable for these items, and pays a refund.

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(32) Article 40, Adjustment to value of a Supply, Implementing Regulations



The United Arab General Trading Company may adjust its Output Tax in the quarterly tax period to June, being the tax period in which the credit note was issued. Golden Arrow is required to adjust its Input Tax deduction in the same Tax Period.

### 5.2.2. Payment of Customer's expenses

The Value of a supply is reduced in any case where the supplier pays any amounts in the name of and to the account of the Customer<sup>(33)</sup>.

The payment of such an amount effectively reduces the total Consideration payable by the Customer for the supply of goods and services. It gives the same overall result as if the Customer had paid his expense himself, and the Supplier had agreed a discount.

As the supplier is not the recipient of any goods or services supplied, it is not entitled to any input tax deduction in respect of the amounts paid on behalf of its Customer.

#### Example (19):

The Fast Solution Limited, a KSA manufacturer, sells machinery to automotive workshops. As a promotional agreement, it sells an air compressor to Platinum Motors in December 2019 for cash payment of the published price of SAR 4,200 (including VAT) and offers to pay the costs of installation at the Customer's premises. Platinum Motors engages a local firm to install and calibrate the machine in February 2020, and receives an invoice for SAR 525 (including VAT) for the installation services. Under the promotional agreement, Platinum sends a copy of the invoice to The Fast Solution, who pays the third party firm's invoice directly.

The Value of The Fast Solution's supply is reduced by the VAT exclusive amount it pays on behalf of its Customer, Platinum Motors. It issues a Credit Note to reflect the reduction to Consideration of SAR 525, including a reduction of VAT charged of SAR 25. Effectively, this results in the adjusted Consideration for the air compressor being SAR 3,675, with VAT of SAR 175.

Whilst The Fast Solution makes physical payment of the third party's invoice to Platinum Motors, is not the recipient of the supply of installation services from the local firm, and is not able to deduct VAT charged by the third party as input tax.

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(33) Article 26 (6)(c), Value of Supply of Goods and Services, Unified VAT Agreement



### 5.2.3. Special cases

Some suppliers may use promotional language which offers that the supplier will “pay the cost of VAT” on a supply, or similar wording to imply that the Customer will not pay VAT on that supply.

Notwithstanding any promotional language, in all cases where a Taxable supplier makes a supply of goods or services (to which the 15% standard rate applies), the supply will be subject to VAT.

A supplier may choose to reduce the total Consideration payable - by the amount of VAT or by any other amount, but this simply represents a discount to the VAT-inclusive consideration. In these cases the total Consideration will be inclusive of the relevant portion (15/115) of VAT and the supplier must issue a Tax Invoice (or simplified Tax Invoice, where applicable), showing that VAT is charged.

#### Example (20):

A hotel has a usual published rate of SAR 525 (including VAT of SAR 78.75) offered to the public for a night's stay in a standard double room. It runs a promotion offering to remove the cost of VAT on any stays taking place during June 2019.

If a Customer takes up this offer for a standard double room, the offer does not remove the SAR 78.75 VAT charge - it instead reduces the total Consideration by SAR 78.75. The hotel must calculate VAT on the reduced price of SAR 500 (being SAR 75), and report this in the VAT return. Assuming the hotel issues a simplified Tax Invoice, this must show this amount of VAT payable, or include a statement that the Consideration is inclusive of VAT.

### 5.3. Volume Discounts

As a promotional measure, a supplier may encourage additional purchases from the same Customer by offering a discount which takes effect upon a Customer buying a specified volume or monetary amount of goods and services. Purchases are made at the non-discounted price, until the agreed volume (or monetary amount) is reached, at which time a credit or cash refund is paid to reflect the discount. This is also referred to commercially as a “cash back” promotion.



## **Standard practice to report retrospective adjustments**

In cases where the Customer has made multiple purchases over a time period to reach the specified volume, the discount will result in a retrospective adjustment to multiple supplies. The supplier should issue a credit note which refers to the original tax invoices for the supplies made at the standard (non-discounted) price.

### **Example (21):**

Rose Roast, a coffee supplier, offers a %10 discount to Customers who purchase more than 100 kilograms of coffee beans in a calendar quarter. The standard price is SAR 160 per kilogram, plus VAT of SAR 24.

Breakfast Café places a monthly order of 35 kilograms on 1 January, 1 February and 1 March 2020. Rose Roast issues a tax invoice together with the delivery for each order, charging SAR 5,600 plus VAT of 840 for each month's supply.

At the end of March, Rose Roast calculates which Customers have qualified for the %10 discount during the first quarter of 2020. As Breakfast Café has ordered more than 100 kilograms, it is given a %10 discount on all purchases in the quarter (SAR 1,764, being %10 of the total VAT inclusive charges). Rose Roast issues a credit note for SAR 1,680 plus SAR 252 of VAT. The credit note refers to tax invoices issued in January, February and March.

Rose Roast should report the discounted amount of Output VAT in its Q1 VAT return. Breakfast Café is entitled to input tax deduction on the discounted VAT amount only on its Q1 VAT return.

### **Alternative - adjustment to current supply**

Alternatively, as an administrative simplification, the Authority accepts that a volume discount given by a supplier can instead be reported as an adjustment to the Consideration for a current supply of goods and services, provided that:

1. the discount does not exceed the Value of the adjusted supply; and
2. all goods and services sold to that Customer are chargeable with VAT at the standard rate.





### Example (22):

Office Supply Company offers a %10 discount to any Customers for all purchases in a year once they have purchased SAR 50,000 of products during a calendar year.

Al Waha Group, a Customer based in Jeddah, makes the following purchases:

- SAR 10,000 (plus SAR 1,500 of VAT) on February 15;
- SAR 20,000 (plus SAR 3,000 of VAT) on May 30 and
- SAR 30,000 (plus SAR 4,500 of VAT) on October 5.

Once the third purchase is made, Al Waha Group qualifies for the volume discount (SAR 6,000 plus SAR 900 of VAT). Instead of issuing a credit note, Office Supply Company adjusts the Tax Invoice to subtract the volume discount from the total Consideration payable on the Tax Invoice issued on October 5.

The invoice issued in October 5 shows SAR 24,000 (plus SAR of 3,600) for that supply of goods and services. Office Supply Company reports Output VAT of SAR 3,600 in its Q4 VAT return, and does not adjust Output VAT previously reported in Q1 and Q2.

### 5.4. Discount for early payment

A supplier may offer a discount to Customers on a supply of goods or services, on the condition that the Customer makes payment for the supply before a certain date. In cases where the Customer makes early payment and the discount is given, the Output VAT reported, and the tax invoice documentation issued by the supplier, should reflect the discounted Consideration paid.

If a Tax Invoice has already been issued showing VAT based on the non-discounted Consideration, a credit note must be issued to reflect the discount to Consideration.



### Example (23):

AB Interior Design sells three curtains to a Saudi resident customer for installation in his family's home. The curtains are installed on 10 June 2019, and a Tax invoice issued to the Customer for SAR 2,940 (including VAT of SAR 441) on the same date. The supplier offers a %2 discount if the invoice is paid by 20 June 2019.

The Customer pays the discounted amount (of SAR 2.881.20) on 18 June. AB Interior Design issues a credit note (for SAR 58.8, including VAT of SAR 8.81) to reflect the reduction in Consideration payable. It includes the discounted amount as Output VAT in its VAT return.



## 6. Goods and Services sold for a combined price

A supply can involve multiple different goods or services being provided by the supplier to the Customer. In many cases, each good or service has an individual Value, and these are added together to calculate the total Value of the supply and the total Consideration payable.

However, there may also be situations where multiple elements (multiple goods, multiple services, or any combinations of goods and services) are sold for a single price. This section describes how VAT is applied in these situations.

### 6.1. Single and multiple supplies

The first step is to determine whether the goods and services rendered constitute a single supply or multiple supplies. This is particularly important where any element may not be subject to VAT at the 15% rate (e.g. in the case of zero-rated or exempt goods and services).

**Multiple supplies** will be recognized in situations where a bundle of different and distinct elements (goods or services) are offered, those elements each have a Value and can be enjoyed in their own right, and the Customer has the option to whether to purchase each element.

A **single supply** should be recognized from a VAT perspective in cases where:

- A supply consists of multiple elements, but it is evident that one element is clearly dominant and the other element(s) is/are to be enjoyed as part of that dominant element and is/are considered ancillary to this principal supply.
- A supply consists of multiple elements, but these elements are linked so closely that, splitting individual elements into separate supplies would be artificial.

An important factor in determining whether a supply is a single supply or a multiple supply is the intention of the Customer and the supplier. Does the Customer intend to purchase one predominant good or service, or many individual components with independent Values?

In addition, where the separate elements of the supply can be purchased individually from various suppliers this can be an indication of multiple separate supplies, but is not decisive.



### Example (24):

A vehicle retailer offers to sell a vehicle for SAR 85,000 (including VAT). This price includes a standard one-year warranty provided to all Customers against mechanical defects. The Customer does not have the option to obtain a lower price by refusing the standard warranty. There is one supply of the vehicle for VAT purposes.

### Example (25):

To help finalize the sale, the vehicle retailer agrees to provide and install a roof rack as part of the sale of the same vehicle. The roof rack is normally sold for SAR 1,000 (including VAT). The relative commercial Value indicates the roof rack is ancillary to the vehicle, and the installation indicates the roof rack is to be enjoyed with the vehicle. This indicates there is one supply of the vehicle.

### Example (26):

The Customer wishes to obtain an optional five year extended warranty and servicing package to ensure the vehicle is roadworthy over its useful life. The standard price of an extended warranty is SAR 10,000. The retailer offers to provide the vehicle with extended warranty for a single price of SAR 90,000. Whilst the warranty must be consumed in relation to the original vehicle, the relative nature and commercial Value indicates that the Customer is obtaining a distinct supply and is choosing to pay an additional amount for this distinct supply. This indicates that the Consideration relates to two separate supplies.

The supplier must allocate an appropriate Value to the extended warranty, and show this on the Tax Invoice issued to the Customer.

Standard commercial documents may be referred to in order to identify the intention of the supplier and Customer - for example:

- Contractual provisions (for example: whether individual elements are referred to separately in the contract, or for one combined price)
- Invoicing arrangements (for example, whether multiple elements are shown on the invoice with separate Consideration, or a single dominant element shown only)



**Commercial documentation** is not decisive in all cases. It is possible that these can be incorrectly issued, may lack sufficient detail, or can in some cases be intentionally manipulated to achieve a desired VAT treatment. The Authority may consider that an alternative interpretation is appropriate, based on the commercial substance of the arrangements.

## 6.2. Allocation of Consideration to individual supplies

If a single price is given for multiple supplies of goods and services, the supplier must determine the Value for each individual supply, and calculate VAT accordingly. If the supplier issues a standard Tax Invoice covering multiple supplies - the Value, and amount of VAT, must be shown for each supply<sup>(34)</sup>.

In cases where a multiple supply exists:

- If each supply has the same VAT rate, then VAT should be calculated on the full Value of the Consideration received for those supplies.
- If different supplies have different rates or treatments, the VAT must be calculated and applied based on the Value of each supply.

### Example (27):

A VAT-registered dentist in the KSA provides and fits a replacement artificial tooth for a patient at his private clinic. The services of the dentist are subject to VAT at %15, but the artificial tooth is a Qualifying Medical Good which qualifies for zero-rating. The dentist offers a discount of 10% to the patient on the standard charges. The dentist provides an itemized invoice to show the relevant costs to the patient.

The underlying Value of the goods and services provided are not affected by the offer of the discount. The dentist therefore applies the discount evenly to the zero-rated goods and to the services, and applies %0 VAT to the Qualifying Medical Goods as follows:

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(34) Further detail may be required, such as showing a unit price for supplies of goods. A full list of details required is provided in Article 53 (5), Tax Invoices, Implementing Regulations. Further guidance is provided in the Invoicing and Records guideline.



Description	Value (SAR)	Value (SAR)	VAT inclusive Price (SAR)
<b>Dental Services</b> <ul style="list-style-type: none"> <li>Fitting of artificial tooth</li> <li>Clean and polish</li> </ul>	1,200	180	1,380
Less: Discount	(120)	18	138
Total standard rated services	1,080	162	1,242
<ul style="list-style-type: none"> <li>Artificial composite tooth</li> <li>Zero-rated Medical Goods</li> </ul>	300	0	300
Less: Discount	(30)	(0)	(30)
Total zero-rated goods	270	0	270
<b>Total</b>	<b>1,350</b>	<b>162</b>	<b>1,512</b>

The Value of each individual supply must accurately reflect the relative commercial Value of goods and services supplied. Suppliers should not seek to artificially value zero-rated or VAT exempt supplies at a higher Value than those supplies taxable at the %15 rate. Suppliers should be able to provide support of the commercial pricing adopted upon request by The Authority.



In case of a single supply, the entire supply must have the same VAT treatment (i.e. standard rated, exempt or zero-rated).

### **Example (28):**

An individual purchases an electric food processor whilst visiting the KSA. The supplier charges a single price of SAR 420 (including VAT) which entitles the Customer to the food processor, and access to content on its Customer-only website (being recipes, storage advice and other information similar to that available on public websites).

In this case, the access to the supplier's website is of nominal Value and is clearly ancillary to the dominant supply of the food processor. The supplier must apply VAT at the standard rate to the supply of goods in the KSA, and should not allocate any Value to the website access provided.

## **6.3. Promotions including "free" goods**

In some cases, a good or service will be described as "free" as promotional language, but are provided as part of a package of other goods or services (for example, a retailer sells two identical goods with a third sold "free", or a mechanic will provide a "free" safety check as part of every motor vehicle service). The provision of free items requires analysis of whether a Nominal Supply is made.

### **6.3.1. Nominal Supplies - legal background**

For VAT purposes, some specific events which do not involve supplies to third parties for Consideration are nonetheless deemed to be supplies for VAT purposes. These events are called Nominal Supplies, and are outlined in the Unified VAT Agreement<sup>(35)</sup>.

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



The provision of free goods or services as part of a business promotion can result in a Nominal Supply. The definition of “Nominal Supply” includes (amongst other events):

“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];

and supplying Services without Consideration.”

The default position is that goods and services supplied by a Taxable Person without receiving any Consideration (from any person) will result in a Nominal Supply by that Taxable Person. However, this is subject to the three exceptions below

#### **Exceptions:**

(a) Low-valued items: A Nominal Supply does not take place where a Taxable Person provides goods as gifts or samples, or otherwise provides goods and services to promote the its economic activity. This is subject to an annual limit of SAR 200 for each recipient and a total annual limit of SAR 50,000 for that Taxable Person, based on the Fair Market Value of those goods and services<sup>(36)</sup>.

(b) Items where input tax not deducted: A Nominal Supply is not recognized in cases where input tax has not already been deducted by the supplier in relation to the goods or services provided<sup>(37)</sup>.

The Authority interprets this concept to extend to any input tax that is attributable to the goods or services which would be the subject of the Nominal Supply. For example, this would include the purchase of the goods or services themselves; or constituent expenditure (such as raw materials to make goods, or equipment used for supplying services).

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(36) Article 15, Nominal Supplies, Implementing Regulations

(37) Article 8 (3), Nominal Supplies, Unified VAT Agreement





### Example (29):

Diamond Home Construction purchases designer goods from a KSA supplier to provide as gifts to selected Customers, suppliers and other important guests. It knows that these items will be used as gifts (supplies for no Consideration), and does not deduct input tax on the purchase. Therefore, ABC Construction is not required to report a Nominal Supply when the items are eventually gifted for no Consideration.

(c) Items provided as an ancillary part of another supply for Consideration. This concept is discussed further in section 6.3.2 below.

### 6.3.2 Free goods or services provided as part of another supply

In some cases, a good or service will be described as “free” as promotional language, but this may not represent the commercial reality. For example:

(1) The goods or services may, in fact, be provided together with and as an ancillary part of another single 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. In this case, the free good or service is not an independent supply for no Consideration. As such, the supplier does not make a Nominal Supply.

### Example (30):

AlMuna is a wholesaler of office furniture. For all large orders of office furniture, it provides free delivery to the Customer’s premises (within the Riyadh area). The United Bank purchases 50 office chairs from AlMuna for a new building fit out. AlMuna offers a special price of SAR 126 per chair, with delivery to the new office of The United Bank.

In this case, the facts indicate that there is not a separate supply of delivery services. Instead, AlMuna makes a single supply of delivered goods to The United Bank. Therefore, AlMuna’s Tax Invoice does not refer separately to a delivery service - an excerpt of the invoice is shown below:



Description	Quantity	Unit Price (excl.VAT)	VAT rate
Office Chair Model Number 303	50	120	15%
Total (excluding VAT)	2,000,000	SAR	6,000
VAT at 15%		SAR	900
Total payable		SAR	6,900

(2) The “free” goods or services may be 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.

### Example (31):

Aziz Electronics runs a promotion during March 2020. This promotion offers Customers who purchase any new laptop with a sales price over SAR 3,000 a printer at no additional cost. The promotional language describes this as a “free” printer for Customers buying a new laptop. The basic printer can be purchased individually in store for SAR 420 (including VAT).

In this example, the facts suggest that the Customer pays a single price but expects to get two specific goods, the laptop and the printer. Despite the promotional language using the word “free”, the supplier effectively offers a discount to both items.



A KSA Customer sees the promotion and purchases a new laptop priced at SAR 3,150. He pays SAR 3,150 in cash for the laptop and printer. Aziz Electronics issues a Tax Invoice reflecting the sale - an excerpt of this invoice is as follows:

Description	Quantity	Unit Price (excl. VAT)	VAT rate
Laptop Model Number 45678	1	3,000	15%
Basic Printer - Model Number P100	1	400	15%
Subtotal			3,400
Less: Discount - March Laptop Promotion			(400)
Total (excluding VAT)		SAR	3,000
VAT at 15%		SAR	450
<b>Total paid</b>		<b>SAR</b>	<b>3,450</b>

Aziz Electronics includes Output Tax in its VAT return of SAR 450 on this sale. As there is not a Nominal Supply in this circumstance, it does not report any additional Output Tax.



### 6.3.3. Goods or services supplied independently for no Consideration

If a good or service is provided without any Consideration payable and independently of any other supply made by the Taxable Person to that same recipient, this is a supply for no Consideration.

If a good or service is shown on a tax invoice with a corresponding unit price or service Value of zero, this may indicate the supplier intends to make a supply for no Consideration, independent of any other goods or services shown on that invoice.

The independent supply of goods or services by a Taxable Person for no consideration is a Nominal Supply<sup>(38)</sup>, provided that:

- The Taxable Person does not receive any (monetary or non-monetary) Consideration from the recipient or any third person;
- the Taxable Person deducted input tax relating to those goods and services, and
- the goods or services do not fall below the threshold in law for low Value goods and services<sup>(39)</sup>.

If a Nominal Supply is made, VAT is calculated on that Nominal Supply based on the purchase Value or cost to the supplier, and included in the supplier's VAT return as Output VAT. The VAT amount is not charged to the Customer, and a Tax Invoice must not be provided to the Customer.

#### Example (32):

A KSA lawyer provides an extensive range of legal services to an individual client during 2022, and bills more than SAR 100,000 for his services during the year. As a token of thanks, the lawyer provides a gift of a watch valued at SAR 2,100 (including VAT).

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(38) Article 8, Nominal Supply, Unified VAT Agreement

(39) Article 15, Nominal Supplies, Implementing Regulations



This is an independent gift that is clearly not linked to any goods or services provided by the lawyer. If the lawyer has claimed input tax on the purchase, he must account for Output Tax based on the purchase cost of the watch (SAR 273.91, being  $15\% \times 2.100 \text{ SAR}$ ) in his VAT return.

Alternatively, if the lawyer has not deducted any input tax on the purchase, he is not required to report a Nominal Supply.

## 7. Vouchers

### 7.1. What is a “qualifying” Voucher?

Vouchers are physical or electronic documents, which entitle Customers to redeem them as consideration for goods or services from a supplier or group of suppliers. A Voucher is not a form of currency, but can be exchanged and used as non-monetary Consideration (and often shows an equivalent monetary Value). A Voucher generally only has commercial Value due to the supplier’s undertaking to allow its redemption as consideration for goods and services.

A Voucher is defined for VAT purposes as:

“...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<sup>(40)</sup>”.

Vouchers meeting this definition are subject to special VAT rules. For the purpose of this guideline, Vouchers falling within this definition are qualifying Vouchers. Other commercial documents may be described as “Vouchers” in promotional language, but are not subject to special VAT rules. These “non-qualifying Vouchers” are discussed in section 7.5.

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(40) Article 19(3). Issue or Supply of a Voucher, Implementing Regulations



## Specific points to be aware of in respect to Vouchers:

1	<p>There is no required specification to the form of the Voucher. A Voucher can be a physical document, or an electronic card with a stored monetary amount.</p> <p>Example: an electronic gift card or a pre-paid phone card can be qualifying Vouchers, where the other criteria are met.</p>
2	<p>Voucher must be an instrument - this means it must be able to be transferred and be able to be redeemed by different persons, or able to be honored by different persons, at the time of the relevant issue or supply. A document which only entitles a specified person to "redeem" it for goods and services with a known supplier is not a qualifying Voucher.</p> <p>Example: a fuel card registered to a particular user and available for his exclusive use is not a qualifying Voucher. This is an advance payment for the purchase of fuel by that user.</p>
3	<p>Vouchers must be able to be redeemed as Consideration for a supply of goods or services. The holder of the Voucher must be able to elect to redeem the Voucher against a supply of his choosing, and not a specific pre-determined supply.</p> <p>Example: a Voucher entitling the recipient to a night's hotel stay is a qualifying voucher. A "Voucher" entitling the recipient to a stay at a specified hotel on a specific date is not a qualifying Voucher.</p>
4	<p>A Voucher with an expiry date can still be considered a qualifying voucher, provided that, as at the date that Voucher is issued or supplied, it remains practically able to be redeemed by the recipient for goods and services.</p>
5	<p>Vouchers which only entitle the recipient to a discount on a supply are not able to be used as Consideration for that supply, and are therefore not qualifying Vouchers.</p>

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



### 7.1.1. Face Value Vouchers

Vouchers will often show or store an equivalent monetary amounts, allowing use of that amount as Consideration for a supply or multiple supplies. Vouchers with a monetary amount are defined as “Face Value Vouchers”.

### 7.2. Issue of a Voucher

Where a person issues a new Voucher, whether for Consideration or for no Consideration, this is not considered to be a supply for VAT purposes<sup>(41)</sup>. A Voucher can be issued by the supplier who will redeem it (for example, a Voucher issued by a retailer allowing redemption of the Voucher in any of its retail stores), or by a third party (for example, a mall management company issuing a Voucher which can be redeemed in any store within the mall).

Where an existing electronic Voucher is able to contain a stored monetary Value, the issue of additional Value (also known as the “top up”) of that electronic Voucher is also seen as the issue of a Voucher for VAT purposes.

As a measure to prevent abuse of the special Voucher rules, a supply of services arises in any case where the Consideration payable for a Face Value Voucher is above its face Value<sup>(42)</sup>. This scenario is not expected to occur in usual commercial practice.

### 7.3. Supply of a Voucher

The supply of an existing Voucher is not considered to be a supply for VAT purposes, unless the Consideration payable for a Face Value Voucher is above its face value. If the Consideration payable exceeds the face Value, this is a supply of services to the extent the Consideration exceeds the face Value.

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(41) Article 19(1), Issue or Supply of a Voucher, Implementing Regulations.

(42) Article 19(2), Issue or Supply of a Voucher, Implementing Regulations.



### Example (33):

Al Hamdan Group has the exclusive distribution rights for a specific brand of electronic device. As a promotional strategy, in October 2019 Al Hamdan Group issues 1,000 Vouchers entitling Customers to redeem for SAR 500 of that product to , an intermediary Company, charging SAR 480 each. As the Consideration for the issue is less than the face Value, this is not a supply for VAT purposes.

In December 2019, The intermediary Company sells 200 of the Vouchers to Consumer Marketing Company, charging SAR 495 each. This is not a supply for VAT purposes, as the Consideration is less than the face Value.

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In January 2020, Consumer Marketing Company sells the 200 Vouchers individually to the general public after the launch of a new device to the KSA market. Due to the popularity of the products at that time, it is able to charge SAR 510 for each of the Vouchers. The additional Consideration of SAR 10 (above the stated face Value) is a supply of services. Consumer Marketing Company must report the relevant portion of Output VAT (SAR 1.30) on the Value of that additional supply.

### 7.4. Redemption of a Voucher for goods or services

When Vouchers are redeemed for a supply of goods and services, VAT is charged at the appropriate rate on the goods and services provided, with the Voucher forming non-monetary Consideration for that supply.

If the Voucher is a Face Value Voucher, the value of the non-monetary Consideration will be valued at the amount of face Value used.





### Example (34):

A Customer uses a bookstore Voucher with SAR 100 of Value as part Consideration to purchase a book, paying an additional SAR 150 using his credit card in store. The bookstore accounts for Output VAT on the supply based on the Face Value Voucher (SAR 100) plus the monetary Consideration (therefore SAR 250 in total).

If the Voucher is not a Face Value Voucher, its Value will be based on the Fair Market Value of goods and services provided.

### Example (35):

On January 14, a Customer uses a Voucher issued by Garage Company, which entitles him to a free luxury car wash at its garage. The standard retail price of the car wash is usually SAR 30, but Garage Company runs a promotion during January entitling all Customers to a reduced price of SAR 28. The Fair Market Value of the Voucher is therefore SAR 28, and VAT must be calculated based on this non-monetary Consideration.

#### 7.4.1. Activation of credit

A Voucher entitling any person to a monetary amount of credit, or a certain amount of goods or services, is redeemed when that Voucher is "activated" and applied to a specific Customer's account for redemption with a known supplier.

### Example (36):

A KSA mobile telecommunications provider issues a pre-paid mobile phone Voucher, allowing for any Customer to redeem the Voucher for 50GB of mobile data, during a six month period starting upon activation. The issue of this Voucher for Consideration is not a supply. If the Voucher is traded after its issue, supplies of this Voucher before activation are likewise not subject to VAT. The activation of this Voucher and transfer of the data allowance to a Customer account is its redemption. VAT is due, based on the Value of the mobile data, at the time of activation.



## 7.5. Treatment of “non-qualifying” Vouchers

Other commercial documents which are described as “Vouchers”, but do not meet the definition of a voucher for VAT purposes are called “non-qualifying” Vouchers in this guideline.

1. A non-qualifying Voucher is treated under standard VAT rules. VAT accounted for on the Consideration paid or payable (if any) on the issue or supply of a non-qualifying Voucher as a supply of services. At redemption, the supplier must account for VAT based on the total any Consideration paid for the supply of goods and services.

Examples of non-qualifying Vouchers include the following:

1. A document entitling a Customer to a discount on a supply of goods and services. These documents are often issued for free by a supplier as a promotional measure, and reflect a discount that is commercially acceptable to the supplier. Such non-qualifying Vouchers have no Fair Market Value. If a Customer “redeems” a discount Voucher, this is simply treated as a discount to the Consideration.
2. A document which evidences a pre-payment for a known supply of goods and services, or a supply to a known Customer. For example, a non-qualifying “Voucher” issued by an event company in April 2023 for SAR 120, allowing a Customer to attend a lecture by a guest speaker on 17 September 2023. This is an advance payment in April for a supply of service (the event) taking place in September, requiring VAT to be reported in the event company’s Tax Return for April 2023.



## 8. Loyalty programmes

A loyalty programme aims to incentivise Customers to make further purchases in future. This may be achieved by way of discounts, free goods and services, other rewards or exclusive benefits. There are many different types of loyalty programmes operated in practice by suppliers of goods and services or by dedicated loyal programme operators.

The VAT treatment of any loyalty programme depends on the individual facts. This section of guidance provides information on general concepts and examples, but is not exhaustive. Suppliers and programme operators must apply VAT based on their individual circumstances.

### 8.1. Purchase stamps

A purchase stamp promotion generally provides a physical card or token which is 'stamped' upon the purchase of a single or similar good or service. Upon the Customer having purchased a sufficient number of goods or services at the standard price and evidenced this with purchase stamps, the Customer is usually entitled to an equivalent free good or service when he surrenders the completed card.

This type of purchase stamp programme clearly links the provision of the "last" or "free" good or service with the Consideration paid for the earlier purchases.

#### Example (37):

A typical example is a coffee card, where the Customer is entitled to a tenth coffee from a supplier for free, after previously having purchased nine coffees over time at the standard price of SAR 20, including VAT, and gaining stamps for each purchase. In this example, the Customer who completes the card and obtain a "free" coffee, effectively purchases ten coffees over time for a discounted price of SAR 180 (the standard price of nine coffees).



In these case, it is therefore accepted that a Nominal Supply does not takes place in respect of the provision of the “free” good or service on surrender of the completed purchase stamp card, as Consideration for that good or service has already been paid in advance from the previous purchases. Likewise, the surrender of the card is not a form of non-monetary Consideration for the supply.

Under the coffee card example, the supplier will have collected VAT on sales of the first nine coffees (SAR 23.48 being the VAT component of the SAR 180 paid for the first nine purchases) and reported this as Output VAT, and therefore does not have any additional VAT obligation on provision of the free tenth coffee.

In most circumstances, a purchase stamp card has no separate commercial Value without the Customer having made previous purchases, and a completed card is not usually sold to other Customers. Therefore, a purchase stamp card will not be viewed as a Voucher in usual commercial situations.

## **8.2. Loyalty points - single supplier schemes**

Loyalty points are often used by retailers and service providers to incentivise purchases.

Points are issued to Customers upon the Customer purchases of goods and services, or upon other events (for example, the Customer may “earn” bonus points for referring another Customer). The points are generally held on a Customer’s personal account, and once the Customer acquires sufficient points these may be redeemed for free goods or services.

A “single supplier” points programme involves points being issued by one supplier, allowing redemption against goods or services supplied by that supplier. A third party may administer the loyalty points scheme on behalf of the supplier.



Common features to single-supplier loyalty points schemes are:

- The Customer generally “earns” points by making purchases, or acts of non-material Value (such as making a referral to another Customer). In these cases, the Customer does not make a supply in return for the issue of points.
- The Customer purchases goods or services as his primary motive, and is given points as a consequence. This is a single supply of the underlying goods or services. In these cases, the supplier does not make a separate supply of points.
- Loyalty points can generally not be traded to other persons and have no commercial Value unless redeemed by the original Customer under the terms of the programme. In these cases, the surrender of points by the Customer for a reward good or service is not separate Consideration for a supply.
- The provision of a free good or service is predominantly linked to points acquired for previous purchases from that same supplier which are taxable at the same rate of VAT. Provided this link can be shown as part of the points programme, the provision of the good or service as a reward, for no extra Consideration, does not constitute a Nominal Supply.
- Goods or services offered to the Customer as a reward can be either the usual goods or services sold by that supplier, or a different type of reward good/service. In either case, the reward item is provided in the course of carrying on the supplier’s usual economic activity and incentivizing future sales. The purchase or manufacture of the reward item is, in principle, eligible for input tax deduction in accordance with other general business costs.



**Example (38):**

A large retailer runs a single supplier loyalty scheme under which Customers are issued with an electronic card, and provided one loyalty point for every SAR 100 of purchases made when the number of the card is shown or quoted.

Ahmed is a regular shopper at the store and joins the loyalty scheme in January 2021. By March 2022, he has acquired 53 loyalty points (from total purchases made of SAR 5,300 including VAT). He refers to the scheme website and sees that he may use 25 points for a new children's toy, normally valued at SAR 120. He visits the retailer and asks to surrender 50 points for two toys for his children.

The "reward" goods are linked to Ahmed's earlier purchases from the same retailer. Therefore, the provision of reward goods relates to the earlier Consideration provided for those purchases. The retailer does not make a Nominal Supply upon providing the toys to Ahmed.



### 8.3. Multi-party loyalty schemes

More complex loyalty points schemes involve multiple "participating" suppliers. Under these schemes:

- points may be acquired or "earned" by participating Customers as a result of purchases from multiple suppliers participating in the scheme;
- Once earned, points cannot be traded or transferred by a participating Customer to another person;
- Once issued, points acquired in respect of all purchases generally have an equivalent right to eventual redemption (the points all carry the same effective "value" under the scheme);
- Points issued to participating Customers in respect of purchases from one Supplier may be redeemed against goods or services supplied by that supplier or another participating supplier;
- The scheme may be operated by a participating supplier, or by a third party operating company (who does not make supplies of goods or services to the participating Customers).

The VAT treatment will depend on the exact specifics of each loyalty scheme. Suppliers and operators of a scheme should analyse the appropriate treatment, and may choose to seek a ruling on individual circumstances. As a default, the Authority will assume the following characteristics of a multi-party loyalty scheme:

#### **Earning points from purchases**

The supply of goods and services together with points "earned" on that purchase under the usual terms of a multi-party loyalty scheme, is considered as a single supply of the goods and services for the total Consideration collected. No additional supply is made on the issue of points with a supply of goods or services.



### **Redeeming points for rewards**

Unlike in a single party scheme, the provision of goods and services upon the redemption of points in a multi-party loyalty scheme cannot be seen as linked to the supplies under which points were originally earned.

When participating suppliers make a supply of goods and services upon the redemption of points by a Customer, the supplier must account for VAT on the supply made to that Customer. The Value of the supply will depend on whether the participating supplier receives any direct Consideration for that supply (whether monetary or non-monetary), or makes a supply for no Consideration.

### **Payments between scheme participants**

Multi-party loyalty schemes usually involve payments between participating suppliers, and/or between operators and participant suppliers. The VAT implications of these payments must be determined on a case-by-case basis, based on what underlying supplies of goods or services are related to those payments.





## 9. Input VAT Deduction

### 9.1. General Provisions

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

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

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

In addition, input VAT may not be deducted on any costs incurred that do not relate to the Economic Activity of the Taxable Person (including some blocked expenditure types such as entertainment, sporting or cultural services, catering service, and restricted motor vehicles),<sup>(43)</sup> or on any costs which relate to making exempt supplies.

This input VAT is a credit entered on the VAT return which is offset against the VAT charged on supplies (output VAT) made during that period.

Input VAT may only be deducted where the Taxable Person holds a tax invoice, or customs documents showing the amount of tax due, or any other document showing the amount of input tax paid or due, subject to the approval of the Authority<sup>(44)</sup>.

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

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



## 9.2. Proportional deduction relating to input VAT

VAT incurred which relates to a Taxpayer's VAT exempt activities, such as exempt financial services or residential rental, is not deductible as Input VAT (It should be noted that real estate supplies are exempt from value-added tax, and are subject to the real estate transaction tax. Further information about Real Estate Transaction Tax is included in the real estate transaction tax guidelines). A person making both taxable and exempted supplies, can only deduct the Input VAT related to the taxable supplies. If a taxable person incurs general costs or expenses (overheads) in the making of taxable supplies, and others that are exempt from VAT, he must in that event split the costs and expenses precisely so as to specify those costs that relate to the taxable supplies. The input tax will be determined in accordance with the following rules<sup>(45)</sup>:

Input VAT <b>directly attributed</b> to taxable VAT sales	<b>Deduct in full</b>
Input VAT <b>directly attributed</b> to exempt sales	<b>No deduction</b>
Overheads, and input tax that cannot be directly attributed to taxable supplies	<b>Partial deduction based on apportionment</b>

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

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



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

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

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

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



## 10. VAT obligations of the Taxable Person

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

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

### 10.1. Issuing tax invoices

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

The tax invoice must clearly detail information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged<sup>(46)</sup>. If different rates have been applied to supplies, the Value of each supply at each rate must be separately specified, as well as the VAT applicable to each rate. A tax invoice may be issued in the form of a commercial document, provided that document contains all of the requirements for the issuing of tax invoices as set out in the Implementing Regulations to the Law<sup>(47)</sup>.

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(46) For more details on the requirements for issuing tax invoices, refer to the published Invoicing & Records guideline and Article 53, Tax Invoices, Implementing Regulations

(47) Article 53, Tax Invoices, Implementing Regulations



Note that a Tax Invoice for a Nominal Supply (for example, resulting from the provision of goods or services for no Consideration) must be kept with the person's business records, but must not be issued to the recipient of the goods or services.

Further information on the requirements for tax invoicing can be found in the Taxpayer guideline on Invoicing and Records.

## 10.2. Filing VAT Returns

Each VAT registered person, or the person authorised to act on his behalf, must file a VAT return with the Authority 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 VAT periods are mandatory for Taxable Persons with annual revenues exceeding SAR 40 million. For all other VAT registered persons, the standard tax period is three months.

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

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

If the VAT return results in VAT due to the Taxpayer, or if the Taxpayer has a credit balance for any reason a request for a refund of this VAT may be made after the filing of the VAT return, or at any later time during the next five years by filing a request for a refund to the Authority. ZATCA will review these requests and will pay the amount due on refund requests that have been approved, directly to the Taxpayer<sup>(48)</sup>.

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



### 10.3. Keeping records

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

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

Records may be kept in physical copy, or electronically provided the relevant criteria are met - but in all cases must be made available to the Authority on request.

All records must be kept for at least the standard retention period of 6 years. That minimum period for retention is extended to 11 years in connection with invoices and records relating to movable capital assets, and 15 years in connection with invoices and records relating to nonmovable capital assets<sup>(49)</sup>.

### 10.4. Certificate of registration within the VAT system

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

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

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



## 10.5. Correcting past errors

If a Taxable Person becomes aware of an error or an incorrect amount in a filed VAT Return, or of any other non-compliance with the VAT obligation, he should notify the Authority and correct the error by amending VAT the tax return. Errors resulting in a net understatement of VAT (exceeding SAR 5,000) must be made known to the Authority within twenty (20) days of detecting the error or incorrect amount, and the previous return must be amended. In connection with minor errors resulting in a difference of less than SAR 5,000, the error may be corrected by amending the net tax in the subsequent tax return<sup>(50)</sup>.

Further information on correcting errors can be found through [Zatca.gov.sa](http://Zatca.gov.sa).

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



## 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>(51)</sup>.

Description of offence	Associated fine
<b>Submitting false documents with the intent</b> of evading the payment of the VAT due or to reducing its value	<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>
Move 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 services</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 submitted
<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 ZATCA employees</b> from performing their duties	Up to SAR 50,000
Violating the provisions of the VAT <b>regulations or the VAT law</b>	Up to SAR 50,000

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





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 the Authority with regard to the Taxpayer's behaviour and compliance record (including Taxpayers meeting their requirements to notify the Authority of any errors, and to provide co-operation to rectify mistakes).

## **12. Applying for the issue of rulings (interpretative decisions)**

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

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

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

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



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

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

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

### **13. Contacting us**

For more information about VAT treatment, kindly visit our website: [Zatca.gov.sa](http://Zatca.gov.sa); or contact us on the following number: 19993



## 14. Common Questions and Answers

### 1. Is VAT calculated on the discounted price offered by a Taxable Person to a Customer?

VAT is calculated based on the total Consideration paid or payable for the supply of goods or services. If the Customer is given a discount and pays a reduced Consideration, the VAT must be calculated and reported on that reduced Consideration.

### 2. How is VAT affected when a Taxable Person provides a cash rebate to a Customer?

If the rebate relates to an earlier supply of goods or services, this is generally an adjustment to the Consideration for those supplies. If a Tax Invoice has already been issued to the Customer, the Taxable Person must issue a Credit Note to record the change in Consideration and make an adjustment to Output VAT reported. If the Customer has deducted input VAT, he must adjust the deduction to reflect the change in Consideration.

### 3. A Taxable Person offers a discount on a supply of goods in return for his Customer providing a service to him. What is the VAT treatment?

The service provided by the Customer is a form of non-monetary Consideration provided by the Customer. The Value of the non-monetary Consideration should be added to the (discounted) monetary Consideration to calculate the VAT payable by the Taxable Person.

The Authority accepts that a small act performed by a Customer with a trivial Value (such as bringing a reusable carrier bag) in order to obtain a discount does not constitute non-monetary Consideration. In these cases, VAT should be calculated based on the discounted price.

### 4. A Taxable Person offers to provide a free product to Customers if they buy another two products of higher Value. What are the VAT consequences?

In this case, there is no independent supply of goods for no Consideration. The Taxable Person is offering to supply all three products for a reduced price. The Taxable Person should reflect this on the Tax Invoice by showing the unit price of all items, and a discount to the total Consideration payable. In this case VAT is only due based on the total Consideration payable.



**5. A Taxable Person agrees to perform a service for free to a usual Customer as a goodwill gesture. What are the VAT consequences?**

In this case, the Taxable Person performs a service independently of any other supply of goods and services, and for no Consideration. If the Taxable Person has deducted input tax on the direct inputs of this service, this will be a Nominal Supply for VAT purposes, valued at the purchase Value or cost to the supplier (subject to the threshold for low-valued services).

**6. A wholesaler provides goods (purchased from a KSA distributor) to selected business Customers in the KSA for free, as part of a promotion by the international manufacturer of those goods. The international manufacturer agrees to pay a set amount for each good provided during the promotion. Does VAT arise on the provision of free goods in this case?**

Yes. This is likely to be a supply of the goods for Consideration, which is paid by the international manufacturer (and not by the Customer) as Third Party Consideration. The wholesaler should account for VAT on the supply of goods taking place in the KSA, calculated based on the Consideration received from the international manufacturer.

**7. A Taxable Person is provided a retail Voucher with a face Value of SAR 100 by a Customer, as part payment for a sale of goods (priced at SAR 150), with the remainder paid in cash. How is VAT accounted on the sale?**

The supply of goods is subject to VAT based on the full price of SAR 150. The Voucher is nonmonetary Consideration for the supply of goods.

**8. A supplier and Customer agree a heavily discounted price of SAR 1,000 payable for a supply of a unit of used machinery - which has an estimated Fair Market Value of over SAR 10,000. Should VAT be calculated on this price?**

If the supplier and Customer are not Related Persons, they are entitled for VAT purposes to commercially agree a discounted monetary Consideration of SAR 1,000. However, care should be taken to identify if any non-monetary Consideration is also provided.

If the supplier and Customer are Related Persons, the supply may need to be valued at Fair Market Value.



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