



# VAT Guideline

## Economic Activity



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.



## Contents

<b>1. INTRODUCTION</b>	<b>06</b>
<b>1.1. IMPLEMENTING A VALUE ADDED TAX (VAT) SYSTEM IN THE KINGDOM OF SAUDI ARABIA (KSA)</b>	<b>06</b>
<b>1.1.1. ZAKAT, TAX, AND CUSTOMS AUTHORITY</b>	<b>06</b>
<b>1.1.2. WHAT IS VALUE ADDED TAX?</b>	<b>06</b>
<b>1.2. THIS GUIDELINE</b>	<b>07</b>
<b>2. DEFINITIONS OF THE MAIN TERMS USED</b>	<b>09</b>
<b>3. ECONOMIC ACTIVITY</b>	<b>10</b>
<b>3.1. AN ACTIVITY BEING CONDUCTED IN AN ONGOING AND REGULAR MANNER</b>	<b>10</b>
<b>3.2. THE ECONOMIC ACTIVITY INCLUDES KNOWN ECONOMIC ACTIVITIES, AND ACTIVITIES SIMILAR THERETO</b>	<b>11</b>
<b>4. REGISTRATION</b>	<b>14</b>
<b>4.1. ECONOMIC ACTIVITY AND TAXABLE SUPPLIES</b>	<b>14</b>
<b>4.2. MANDATORY REGISTRATION</b>	<b>14</b>
<b>4.3. OPTIONAL REGISTRATION</b>	<b>15</b>
<b>5. ECONOMIC ACTIVITIES: SPECIFIC CASES</b>	<b>16</b>
<b>5.1. EMPLOYEES AND PROVISION OF PERSONAL SERVICES</b>	<b>16</b>



## Table of contents

<b>5.2. HOLDING COMPANIES, DORMANT COMPANIES, AND MANAGEMENT COMPANIES WITHIN A GROUP OF COMPANIES</b>	<b>17</b>
<b>5.2.1. DORMANT COMPANY</b>	<b>17</b>
<b>5.2.2. HOLDING COMPANY</b>	<b>17</b>
<b>5.2.3. MANAGEMENT COMPANIES WITHIN THE GROUP</b>	<b>19</b>
<b>5.3. PRIVATE ASSOCIATIONS AND ESTABLISHMENTS</b>	<b>21</b>
<b>5.4. OWNERSHIP OF RACING ANIMALS AND OTHER LEISURE INVESTMENTS</b>	<b>22</b>
<b>6. GOVERNMENT BODIES</b>	<b>23</b>
<b>6.1. GOVERNMENT BODIES ACTING AS A PUBLIC AUTHORITY</b>	<b>23</b>
<b>6.2. COMMERCIAL ACTIVITIES</b>	<b>26</b>
<b>6.3. VAT PAID BY GOVERNMENT BODIES</b>	<b>26</b>
<b>6.4. GOVERNMENT OWNED COMPANIES</b>	<b>27</b>
<b>7. INPUT VAT DEDUCTION</b>	<b>27</b>
<b>7.1. DEDUCTION OF INPUT VAT FOR ECONOMIC ACTIVITIES</b>	<b>27</b>
<b>7.2. APPORTIONMENT BETWEEN ECONOMIC AND NON-ECONOMIC ACTIVITIES</b>	<b>28</b>
<b>7.3. APPORTIONMENT BETWEEN TAXABLE AND EXEMPT ACTIVITIES</b>	<b>30</b>
<b>7.4. EXPENDITURE INCURRED FOR PRIVATE OR NON-ECONOMIC ACTIVITIES</b>	<b>33</b>
<b>7.5. REFUND CLAIMS FOR AUTHORIZED ENTITIES</b>	<b>34</b>



## Table of contents

<b>8. TAX OBLIGATIONS</b>	<b>35</b>
8.1. TAX IDENTIFICATION NUMBER	35
<b>8.2. RESIDENCE OF SUPPLIER</b>	<b>35</b>
8.3. CHARGING VAT	35
<b>8.4. ISSUING INVOICES</b>	<b>36</b>
8.5. FILING VAT RETURNS	37
<b>8.6. KEEPING RECORDS</b>	<b>37</b>
8.7. CERTIFICATE OF REGISTRATION	38
<b>8.8. REQUESTING A RULING</b>	<b>39</b>
8.9. CORRECTING PAST ERRORS	39
<b>9. PENALTIES</b>	<b>40</b>
10. TRANSITIONAL PROVISIONS	42
<b>10.1. TRADE BETWEEN THE GCC COUNTRIES THAT APPLY VAT</b>	<b>42</b>
10.2. TRANSITIONAL REGISTRATION THRESHOLD	43
<b>11. CONTACT US</b>	<b>44</b>
12. Q&A	44



## 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 "Agreement") was approved by KSA by a Royal Decree No. M/51 dated 31438/5/ H. Pursuant to the provisions of the Agreement, the Kingdom of Saudi Arabia issued the VAT Law by Royal Decree No. M113 dated 2/11/1438H (the "VAT Law"), and its corresponding Implementing Regulations (the "Implementing Regulations") were issued by the Board of Directors of the General Authority of Zakat and Tax ("ZATCA") by Resolution No.3839 dated 14/12/1438H.

#### 1.1.1. Zakat, Tax, and Customs Authority

The Authority undertakes to collect Zakat, taxes, and customs duties, achieving the highest level of taxpayers' compliance in accordance with best practices by providing high-quality services. The Authority is also responsible for organizing and managing all activities related to customs operations and ports to achieve the highest level of compliance, productivity, and competitiveness. In addition, the Authority will make sure not to jeopardize or interfere with the powers and responsibilities of other entities while making all possible efforts to achieve its objectives.

#### 1.1.2. 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 implemented 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](https://www.zatca.gov.sa)

## 1.2. THIS GUIDELINE

Economic Activity is one of the fundamental and essential terms for the imposition of VAT in the KSA. The purpose of this guideline is to provide additional clarification with respect to the interpretation and definition of Economic Activity for VAT purposes.

This guideline is directed for all persons who carry out activities which involve making or receiving supplies of goods and services. It contains detailed and explanatory information for:

- Employees and persons carrying out similar personal services;
- Holding companies and management companies;
- Charities and non-profit organizations; and
- Government bodies



This guideline represents ZATCA's views on the application of the Unified VAT Agreement, the VAT Law and the Implementing Regulations in respect of the economic activity as from the date of issue of this guideline

For further advice on specific transactions you may to 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 assist taxpayers, as well as visual guidance materials, all relevant information, and FAQs.





## 2. DEFINITIONS OF THE MAIN TERMS USED

**Economic Activity** is a defined term for VAT purposes. It is defined to be: "An activity that is conducted in an ongoing and regular manner including commercial, industrial, agricultural or professional activities or Services or any use of material or immaterial property and any other similar activity."<sup>1</sup>

**A Taxable Person** is a defined term for VAT purposes. Definition as set out under the Implementing Regulations:

"...a Taxable Person in the Kingdom is a Person who conducts an Economic Activity independently for generating income, and is registered for VAT in the Kingdom or who is required to register for VAT in the Kingdom under the Law or these Regulations."<sup>2</sup>

Under the Unified VAT Agreement, persons who are registered or required to register in any GCC State are considered a Taxable Person. The requirements for registration in the KSA are described in section 4.

**Taxable Supplies** is a defined term for VAT purposes. In the Unified VAT Agreement, they are defined to be: "Supplies on which Tax is charged in accordance with the provisions of the [Unified VAT] Agreement, whether at the standard rate or zero-rate, and for which associated Input Tax is deducted in accordance with the provisions of the [Unified VAT] Agreement."<sup>3</sup>

VAT is chargeable in the Kingdom of Saudi Arabia on taxable supplies of goods or services made or received by a taxable person in the Kingdom, and on importation into the Kingdom.<sup>4</sup>

**Resident** is a term defining a person (with a natural or corporate) who has a place of residence in the KSA for VAT purposes, and a non-Resident is a person with no such place of residence in the KSA.<sup>5</sup>

The rules to determine residence are discussed in Section 8.

---

(1) Article 1, Definitions, Unified VAT Agreement

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

(3) Article 1, Definitions, Unified VAT Agreement

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

(5) Article 1, Definitions, Unified VAT Agreement



## 3. ECONOMIC ACTIVITY

Economic Activity definition contains two important limbs:

### 3.1. AN ACTIVITY BEING CONDUCTED IN AN ONGOING AND REGULAR MANNER

Continuity and regularity of a person in making receiving supplies is one of the key elements for the carrying on of an economic activity. Other activities carried on by a person other than the making supplies may be regarded as an indicator of the carrying on of an economic activity in an ongoing and regular manner (such as preparatory activities).

Generally, the concept of 'ongoing and regular' will depend on the nature of the business or activity carried out by the taxable person, in addition to other factors. The evaluation of whether a person carries on an economic activity will be done with regard to the acts that the person does relating to the making of supplies. The factors that can be taken into account in order to determine whether a person is carrying on an economic activity in an ongoing and regular manner will include, by way of example and not exclusively:

- Whether the person has a commercial registration for the carrying on of the activity, or similar licences (or if he is required to obtain a commercial registration or a licence, under the laws in force), or
- Carrying on activities preparatory to an economic activity, or
- The number of the supplies made by the person, or
- whether the person promotes his products or services to the public in such a manner that it appears to the public that he is carrying on a separate economic activity, and
- Any other relevant act

Once-for-all transactions, like the sale of a person's personal belongings by a natural person, are not considered as economic activities for VAT purposes unless they are carried out as a component of more extensive activities. Deliveries made in a different way, however, can be part of an ongoing economic activity (e.g., seasonal work).



### Example (1):

A restaurant in Jeddah closes in May 2018 for refurbishment. After a break over summer, the owner arranges for a new kitchen to be installed and hires a new head chef. The restaurant opens in November 2018 with new décor and a new menu. Despite the gap in trading, the owner has carried on an Economic Activity during the whole period of 2018.

The date of commencement of the economic activity is the date on which the person does the act or takes a step that makes it clear that the person has done so for the purpose of commencing or carrying on the economic activity in an ongoing and regular manner.

### Example (2):

A person establishes a plastic packaging factory in Al Jubail Industrial City in 2019, and he imports machinery and equipment to be used in production in the same year, with the actual production to begin in the year 2021. The factory will not make any supplies before 2021, but despite that, the person will be regarded as carrying on an economic activity throughout the period 2019 to 2021.

## 3.2. THE ECONOMIC ACTIVITY INCLUDES KNOWN ECONOMIC ACTIVITIES, AND ACTIVITIES SIMILAR THERETO

Economic activity as defined in the Unified VAT Agreement, and in the KSA VAT Law, is a broad and nonexhaustiv list, including:

- Commercial activities or services
- Industrial activities or services
- Agricultural activities or services
- Professional activities or services
- Use of material or immaterial property
- Any other similar activity

Generally, all commercial activities are presumed to fall within the scope of Economic Activity.



Conversely, the Economic Activity is not intended to include activities carried out in a private context. The term 'private' is not a defined term for VAT purposes, but ZATCA considers this to be any activity aimed at an individual's (or group of individuals') personal well-being or enjoyment.

Some private activities can be carried out on a regular basis, and can involve providing goods and services to others. The distinction between an Economic Activity and a private activity will not always be straightforward - in particular for activities carried out by natural persons. In these cases, ZATCA takes the following principles into account:

- Is the activity carried out for pleasure or personal well-being, or does the person intend to seriously carry out the activity as a regular occupation?
- Does the activity have economic substance (in terms of the values of transactions carried out when compared to the mandatory registration threshold and voluntary registration threshold)?
- Is the activity carried out in a manner consistent with other businesses or commercial ventures who carry out that activity?

### **Example (3):**

Abdul Rahman is a Saudi resident natural person who enjoys making trips to the desert during the winter in all-terrain vehicles. He often invites friends and acquaintances to join him on the excursion, and requests these people to pay to cover costs. He does not offer the excursions to the public or plan a schedule in advance as licensed operators would. This suggests a private activity without a serious intention to carry it out as an Economic Activity.

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

Osama is a Saudi resident natural person and a luxury car enthusiast, and imports many vehicles to the KSA for his own personal use. Related to this, he also buys and sells parts for these luxury cars, to other Saudi residents and to people throughout the world, through online car forums. In 2018, he sold parts valued at SAR 400,000. Consequently, Osama's activities would be regarded as similar to the activities of bodies corporate who carry on such activities, and two are required to register for VAT in KSA.



This activity involves an economic substance that can be regarded as an economic activity, and therefore Osama will need to assess whether he is required to register by applying the tests described in section 4 of this Guideline.

In the previous example, Osama carries on an economic activity and a private activity at the same time. The import of luxury vehicles for his personal use, whilst similar to the Economic Activity, should not be considered to be part of the Economic Activity.

An Economic Activity can be carried on by any person - including a legal person, such as an incorporated company, or by a natural person (an individual). The activities of public bodies are described in more detail in section 6.

Whether or not the activity is an economic activity does not depend on any of the following:

- An intention to make a profit: the prescribed activities are not restricted to those carried out for a profit. As mentioned above, a Taxable Person is a person carrying on Economic Activity independently for the purpose of generating income. The concept of income is broader than the intention to make a profit. Therefore, a non-profit organization may carry on an economic activity and be required to register for VAT where it derives income from making taxable supplies of goods and services. If the non-profit organizations do not carry out activities to generate income from their activities, it would not be required to register. Despite that, if a person or organization seeks to make a profit, this is an indication that it is carrying on an Economic Activity
- The establishment of a legal entity, or obtaining licences for the activity, or commercial registration, etc.: the requirements of VAT law are separate from the Companies Law, the Commercial Registration Law, and other relevant laws
- Making taxable supplies: an activity which makes exempt supplies, or which enters into transactions taking place outside the KSA and are not subject to VAT in KSA, is still an Economic Activity. This activity will however not count towards the relevant thresholds for registration discussed in section 4



## 4. REGISTRATION

### 4.1. ECONOMIC ACTIVITY AND TAXABLE SUPPLIES

The KSA VAT law states that:

“...a Taxable Person shall be obligated to register according to his Economic Activities carried out by the Taxable Person in the Kingdom.”<sup>6</sup>

This means that all taxable persons who carry on an Economic Activity for the purpose of generating income are required to register for VAT in accordance with the rules stated below<sup>7</sup> and all VAT registered persons must collect and remit to the Authority VAT due on their taxable supplies.

A person will only be required, or eligible to register for VAT, based on Taxable Supplies made by that person or to that person. A person may therefore carry on an Economic Activity, but may not be required or eligible to register for VAT in the KSA as outlined below.

### 4.2. MANDATORY REGISTRATION

Registration is mandatory for all persons whose annual turnover exceeds a certain registration threshold. If the total of a person’s Taxable Supplies made during 12 months exceeds SAR 375,000 (the “mandatory VAT registration threshold”) that person must register for VAT on those and any subsequent Taxable Supplies<sup>7</sup> made subject to the transitional provisions set out in the Implementing Regulations relating to the mandatory registration threshold during the transitional period.

The Taxable Supplies does not include:<sup>8</sup>

- VAT Exempt supplies - such as any residential rental which qualify for VAT exemption;
- Supplies which are outside of the scope of VAT in any GCC state;<sup>9</sup> or

---

(6) Article 3(1), Registration for Tax Purposes, VAT Law

(7) Article 50, Mandatory Registration, Unified VAT Agreement

(8) Article 52, Calculating the value of Supplies, Unified VAT Agreement

(9) Note the transitional provisions surrounding GCC states without VAT systems - see section 9.1



- Revenues on sales of capital assets: a capital asset is defined as being an asset allocated for longterm business use. Trading stock is not a capital asset

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

- Non-Residents of KSA who are obliged to pay VAT on the supplies that they make or receive in the Kingdom are required to register for VAT irrespective of the value of the supplies in respect of which they are obliged to collect and pay VAT;<sup>10</sup>
- Registration for VAT is required for persons whose annual turnover does not exceed SAR 1 million during a transitional period up to 1 January 2019, but nevertheless an application for registration must be made no later than 20 December 2018.<sup>11</sup>

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

### 4.3. OPTIONAL REGISTRATION

It is possible for any person resident in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses exceed SAR 187,500 (the "optional registration threshold") within a period of 12 months to effect a voluntary registration for VAT.<sup>12</sup>

Optional VAT registration may be desirable where a person 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)

---

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

(11) Article 79(9), Transitional Provisions, Implementing Regulations

(12) Article 7, Voluntary Registration, Implementing Regulations and Article 51, Voluntary Registration, Unified VAT Agreement



## 5. ECONOMIC ACTIVITIES: SPECIFIC CASES

### 5.1. EMPLOYEES AND PROVISION OF PERSONAL SERVICES

For VAT purposes, employees do not carry on an Economic Activity in respect of the services provided as part of employment. The Implementing Regulations state that:

“Employed and other Persons in so far as they are bound to an employer by contract or by any other legal ties creating the relationship of employer and employee as regards working conditions, remuneration and the employer’s liability, are not considered to be carrying on an Economic Activity...”<sup>13</sup>

This means that VAT is not charged on payments of salary or wages to an employee. Likewise, employees are not able to register for VAT in respect of their employment activities. Under Saudi employment law, an employment contract is defined as:

“a contract concluded between an employer and the employee, whereby the latter undertakes to work under the management or supervision of the former for a wage.”<sup>14</sup>

Workers and other persons are regarded as employees to the extent that they are under an obligation towards the employer by contract or by any other legal ties creating the relationship of employer and employee as regards working conditions, remuneration and the employer’s liability).

Individuals who are not employees, but instead independently provide regular services under a services agreement or any other agreement with other persons, will be regarded as carrying on an Economic Activity for VAT purposes. These individuals may be required to register for VAT, depending on the value of Taxable Supplies made annually. In this way, the provision of identical services by persons operating under different contracts can have distinct VAT treatments.

---

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

(14) Article 50, Labour Law, enacted by Royal Decree No. M/51





### Example (5):

Muhannad is a Saudi resident natural person who carries out IT consulting work for a number of companies on short term contracts. He charges a daily rate of SAR 2,000 but does not sign a contract of employment with any of those companies. Consequently, Muhannad's activities are treated as economic activities, and he must register for VAT and charge VAT on the daily remuneration that he receives, if his annual revenues exceed the mandatory registration threshold.

## 5.2. HOLDING COMPANIES, DORMANT COMPANIES, AND MANAGEMENT COMPANIES WITHIN A GROUP OF COMPANIES

Within a corporate group structure, each company (separate legal entity) is seen as a separate person for VAT purposes. Despite the activities of the broader corporate group, the activities of each individual company must be examined to determine whether the company carries out an Economic Activity in its own right to be able to determine each company's:

- Requirement to register;
- Eligibility to register; or
- Eligibility to join a VAT group (please refer to the VAT Group Guidelines for more detail)

### 5.2.1. DORMANT COMPANY

A dormant company is an entity which does not carry on any activity or incur any operational costs. This may be due to an earlier activity ceasing, the company being established for future activity, or for group restructuring reasons. A dormant company does not carry on an Economic Activity for VAT purposes and consequently cannot register for VAT.

### 5.2.2. HOLDING COMPANY

A holding company is a company designed to control other companies, which are called subsidiary companies. The holding company holds shares or ownership in other companies. Saudi companies will not be regarded as holding companies unless they have been established as holding companies under the Companies Law and other relevant laws. Generally speaking,



for VAT purposes, the ordinary activities of the holding company may be different from one company to another. A holding company that has an ownership stake and receives dividends will not be regarded as carrying on an economic activity for VAT purposes. However, if the holding company has other sources of revenues or expenditures, it is probable that it will be regarded as carrying on an economic activity.

An "active" holding company may	A holding company may
Hold shares in one or multiple group subsidiaries	Incur operational costs and make recharges of costs to other group entities
Receive dividend income relating to the ownership stake or shares that it holds	Provide financing to branches or other subsidiary companies
Pay dividends to its shareholders	Invest by means of sale and purchase of shares and other securities
Incur company registration, audit and other non-operational fees	Receive a recharge for a portion of staff or office costs, or have its own administrative staff
	Provide services to other subsidiary companies
	Own real estate and movable property to carry on its activity
	Hire out ownership rights and other rights in rem to its subsidiary companies or others
These activities are not sufficient to confirm that Economic Activity is carried out	These activities confirm that the (active) holding company carries on an Economic Activity



### **Example (6):**

Holding Company A, resident in the KSA, is the 100% owner of a group of companies consisting of seven subsidiary companies within the corporate group. The holding company is registered at the same address as the largest operating subsidiary and has no staff or office of its own. It holds annual Board meetings to cover group activities and approve dividends but does not provide any management services to the subsidiary companies. Consequently, the Holding Company is not regarded as carrying on an Economic Activity and cannot register for VAT or join a group with the other companies in the group.

### **Example (7):**

Holding Company B, resident in the KSA, is the 100% owner of a group of companies consisting of seven subsidiary companies. Holding Company B has some employees and it carries out some administrative functions for the group of companies. These employees also spend some time working for group companies, and their costs are re-charged. Holding Company B incurs centralized costs for the group's financial and administrative functions, and make a re-charge to group entities. In such case, Holding Company B carries on an Economic Activity for VAT purposes, on the grounds that it receives its revenues from fees for services performed for the subsidiary companies within the group.. It may register for VAT if annual supplies exceed the optional VAT registration threshold, or may form a group with one or more of its subsidiary companies.

### **5.2.3. MANAGEMENT COMPANIES WITHIN THE GROUP**

A management company within the group or a service company does not generally enter into transactions with third parties outside the group, but carries out services for the benefit of the companies within the group. Generally, these services are made under service agreements between the parties to the group and charged on an annual or other periodical basis.

Management services are generally seen as continuous services for VAT purposes. Under rules for the date of supply of services, if continuous services are not invoiced, or payment received, on an annual basis, a date of supply takes place on the date falling twelve months from the last supply or the date of issue of the invoice, or the date of receipt of the consideration, whichever occurs last.



A management company in the group or a service company carries on an Economic Activity for VAT purposes.

### Example (8):

A KSA corporate group establishes Service Company, a separate legal entity, to carry out central functions and provide management oversight to the three individual KSA operational companies. It employs three senior executives with detailed technical knowledge and two administrative staff.

Service Company enters into a Management Services Agreement with each of the operational companies individually under which it charges a 40% of its costs to each company (thus representing an overall profit of 20% on total costs) in consideration of the value of services provided.

During 2021, Service Company incurs costs of SAR 2,800,000. It raises an invoice to each subsidiary individually for its supplies on 15 January 2022 for services provided (being SAR 1,120,000), and adds VAT at 15%. The invoice will consequently be as follows:

<b>Supplier: Service Company TIN: 30000 56965 00003</b>	<b>Date: 31 December 2021</b>
Customer: Operational Company A	(SAR)
Management fees for year ended 31 December 2021 40% x SAR 2,800,000	1,120,000
VAT at 15%	168,000
<b>Total payable</b>	<b>1,288,000</b>

Note that if Service Company were registered as part of a VAT group with the operational companies, the management fee would be outside the scope of VAT.



### 5.3. PRIVATE ASSOCIATIONS AND ESTABLISHMENTS

In the KSA, the Ministry of human resource and social Development (HRSD) is the authority responsible for licensing private associations and establishments including charitable associations.

The term 'charity' is broad and includes many forms of organizations. A charity is generally seen as a public benefit body which is either funded by donations from the public, grants from the State, income from permitted supplies that may be subject to tax, or, as in the case of charity foundations, primarily from income and gains from investment assets.

A private association or establishment established for charitable activities will generally not have the goal of obtaining profit, but will carry out its activities with the view to supporting a particular cause. The VAT treatment will depend on the functions the private association or establishment carries on to derive its income, whether or not this involves a regular commercial activity.

As activities differ between charitable organizations, this must be considered on a case-by-case basis. As discussed in the core principles in section 3 of this guideline, the absence of a profit making intention does not exclude an organization from carrying on an Economic Activity. A person carrying on an Economic Activity with the intention of generating income -of any sort- may be a Taxable Person.

Private associations or establishments which carry on solely fundraising activities, and derive their income from donations and grants and then either:

- Pass these funds directly to recipients; or
- Use funds to provide humanitarian services without charge;

will not be viewed to carry on an Economic Activity based on these activities alone.

Conversely, private associations or establishments which derive income from their own established source of (non-donation or non-grant) funding, from investments or from the provision of goods and services will be considered as carrying on an Economic Activity.



Private associations or establishments which provide services to the public or to designated recipients (including for a reduced or subsidized price) are still viewed to carry on an Economic Activity for VAT purposes.

#### **5.4. OWNERSHIP OF RACING ANIMALS AND OTHER LEISURE INVESTMENTS**

As discussed in the general principles, leisure activities may constitute an economic activity where they are carried out on a regular basis and meet the tests to be considered as an economic activity.

The ownership of a racing animal (such as a horse or camel) can be an investment and a means of deriving income on a regular basis. However, the input VAT system is not designed for use to subsidize expenditure on private activities or hobbies.

##### **Example (9):**

Hisam is a natural person in KSA and owns three race horses, and incurs regular expenditure from service providers in respect of stabling, grooming and training. The service providers add VAT to their invoices. Hisam enters the race horses into races but does not have any stream of anticipated income in respect of this. Hisam is not regarded as carrying out an Economic Activity in respect of his horse ownership, and cannot register for VAT. The VAT incurred on the services provided to him is therefore not deductible and will be an additional expense of his.

For this reason, ZATCA will interpret the application of an Economic Activity narrowly in this area. For example, where an owner of a horse or camel can evidence to ZATCA an intention to carry on the activity of horse rearing (or other) on a regular basis for the purpose of generating an income, that may be sufficient for that person to be treated as carrying on an economic activity in connection with the ownership and he may register if the other conditions are met.



## 6. GOVERNMENT BODIES

Specific rules apply in examining whether Government entities carry on an Economic Activity for VAT purposes. The Implementing Regulations state that:

“Any activity exercised by a government body in its capacity as a public authority shall not be considered to be an Economic Activity for the purposes of the Law and these Regulations.”<sup>15</sup>

This means that Government bodies that do not carry on activities otherwise than in their capacity as public authority will not be required to register for VAT or to charge VAT on the activities carried on by them in their capacity as a public authority.

### 6.1. GOVERNMENT BODIES ACTING AS A PUBLIC AUTHORITY

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

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

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

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

---

<sup>(15)</sup> Article 9(5), Registration provisions applying to specific circumstances, Implementing Regulations



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

A Saudi government authority has the issuing of operational licenses to businesses in a certain sector as one of its core functions. The authority charges a fee of SAR 1,500 to the business for the license and an administrative fee of SAR 750 for renewal of the operational license. The government authority does not carry out an Economic Activity in respect of the issue and renewal of these licenses.

It should be noted that governmental activities, supplies or services are not regarded as being outside the scope of VAT unless they are directly provided by the government authority empowered to do so. In certain cases, a government body may subcontract to a commercial business (whether private or owned by the State) to carry out certain parts of its functions. In such cases, the subcontractor makes its supplies in the course of an Economic Activity, even where these are used in providing a public service.

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

The Saudi government authority from the previous example asks Al Saad Co to carry out checks on whether persons applying to obtain licenses from them are complying with health and safety regulations, as a requirement to satisfy the requirements for issue of the licenses for 100 persons. Al Saad Co charges a fee of SAR 120 (exclusive of VAT) per check carried out on behalf of the government authority, but the government authority does not make any additional charges in respect of such check to persons applying for licences. This fee is charged as part of an Economic Activity and is subject to VAT. The VAT invoice issued by Al Saad Co will indicate the following:

---

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

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





<b>Supplier: Al Saad Co TIN: 30000 83438 00003</b>	<b>Date: 15/7/2021 Invoice no.: 315</b>
Customer: Saudi Government Authority	(SAR)
Health and Safety checks 100 x SAR 120 per check	12,000
VAT at 15%	1,800
<b>Total payable</b>	<b>13,800</b>

In other cases, a commercial business may collect a fee on behalf of a government body with whom it contracts. If the fee is collected in the name of the government authority, and forms part of the government body's designated public activities - this will not be subject to VAT despite being collected by a commercial business.

#### **Example (12):**

An immigration consultant in the KSA provides consultancy services to migrant workers resident in the KSA to renew work visas. The consultant charges a fee for its services, and collects the designated charge from the customer to pass directly to MOFA for the visa application. The fees that are transferred to MOFA are not subject to VAT. An invoice to the customer will include:

---

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



<b>Supplier: KSA Immigration Consultant TIN: 30000 83438 00003</b>	<b>Value (SAR)</b>	<b>VAT (SAR)</b>	<b>Date: 15/8/2021</b>
Consultancy services	2,000	300	VAT at 15%
Health and Safety checks 100 x SAR 120 per check	12,000	0	No VAT
<b>Total payable</b>	<b>14,000</b>	<b>300</b>	

## 6.2. COMMERCIAL ACTIVITIES

In some cases, a public body may have other activities in addition to its designated functions empowered by the state. Any commercial activities of a public body may be viewed as an Economic Activity because it is not considered as being carried on by a government body in its capacity as a public authority.<sup>16</sup>

### Example (13):

A local municipal authority in the Eastern Province has a budget surplus and has additional funds available in its bank account. To best manage and protect these excess funds until they are required for public use, it appoints an investment manager to invest in tradeable securities. The investment activity is not one of the functions designated to the local authority by the state. The investment activity is an Economic Activity.

## 6.3. VAT PAID BY GOVERNMENT BODIES

Government bodies will in all cases be subject to VAT on supplies made to them by suppliers. Although the charges made by a Government body in the capacity as a public authority fall outside of the scope of VAT, this does not entail that they do not pay VAT on supplies made to them.



## 6.4. GOVERNMENT OWNED COMPANIES

In certain cases, a government body will have the right to acquire shares in companies, such as Joint Stock Companies (JSCs) or Limited Liability Companies (LLCs) operating in the KSA.

These companies are not public bodies -even where a majority of ownership is by Government- and do not act in a public authority capacity. Therefore, such companies will be viewed to be carrying on an Economic Activity similar to privately owned companies.

### Example (14):

A public utility provider is established as a JSC, with 60% of shareholdings held by the KSA Government, and the remaining 40% owned by private investors. The company provides utilities to private and business customers in return for regular charges. The JSC carries on an Economic Activity for the purpose of generating income and will be required to register for VAT in the event that the relevant conditions are satisfied.

## 7. INPUT VAT DEDUCTION

### 7.1. DEDUCTION OF INPUT VAT FOR ECONOMIC ACTIVITIES

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

- VAT on the inputs of a VAT registered person, charged by a VAT-registered supplier in the KSA;
- VAT on the inputs of a VAT registered person self-accounted for by him under the Reverse Charge Mechanism;
- The VAT on imports to a VAT registered person paid to The Authority on imports of goods into the Kingdom.



In connection with the requirements for the economic activity, the Implementing Regulations state that:

“Subject to the specific provisions of this article, a Taxable Person may deduct Input Tax charged on Goods and services supplied to that Taxable Person, to the extent these are received in the course of carrying on an Economic Activity and constitute: <sup>17</sup>

- a. Taxable Supplies including zero-rated Supplies,
- b. Internal Supplies,
- c. Supplies that would have been Taxable Supplies had they been made in the Kingdom.”

Therefore, Input VAT deduction is only available for goods and services to the extent the recipient receives these whilst carrying on an Economic Activity.

As a general rule, input VAT relating to VAT exempt supplies may not be deducted.

In addition, input VAT may not be deducted on any costs not incurred as part of the Economic Activity (including some blocked expenditure types such as entertainment and motor vehicles), 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 be deducted only where the VAT registered person holds a tax invoice or customs documents showing the VAT due (or any alternative document demonstrating the amount of VAT paid or due for payment, subject to the approval of the Authority).

## **7.2. APPORTIONMENT BETWEEN ECONOMIC AND NON-ECONOMIC ACTIVITIES**

Input VAT deduction is only available to the extent that costs are incurred in the course of an Economic Activity.<sup>18</sup>

If a person carries on both Economic Activity and non-economic activity, the Input VAT deduction should be determined based on whether the supply made by the taxable person is in the course of carrying on his economic activity, as follows:

---

(17) Article 49, Input Tax deduction, Implementing Regulations

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



<b>Input VAT attributed to the supplies made to the taxable person in the course of the carrying on by him of his Economic Activity</b>	Deduct in full
<b>Input VAT attributed to the supplies made to the taxable person in the course of the carrying on of a non-economic activity</b>	No deduction
<b>Other input VAT that cannot be directly attributed to Economic or non-Economic Activities</b>	Partial deduction based on apportionment

ed method or mechanism for the calculation of the apportionment between Economic Activities and non-economic activity (as it does for taxable and exempt activities). Taxpayers must use a method that clearly and fairly reflects how the supplies in respect of which VAT has been paid by the taxable person have been used, and the extent to which they have been used in economic activities. The method should be based on verifiable data, which can be reviewed by ZATCA.

The taxable person must specify the amount of tax incurred on supplies received by him in the course of carrying out an economic activity, and those received by him outside the economic activity, before apportioning input VAT between taxable activities and exempt activities.



### 7.3. APPORTIONMENT BETWEEN TAXABLE AND EXEMPT ACTIVITIES

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

For taxable persons who make both exempt and taxable supplies, the Input VAT available to them must be determined using the following process.<sup>19</sup>

1. apportionment of the amount of the VAT between the economic and non-economic activities, as set out in section 7.2 above, where the VAT on the economic activities will be the deductible input tax;

apportionment the input tax relating to the economic activity between the taxable supplies and the exempt supplies.

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

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

---

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



A prescribed default method of for proportional deduction using the value of taxable supplies made during the year is as follows:

**The value of Taxable Supplies made by the Taxable Person in the last calendar year**

---

**The total value of Taxable Supplies and Exempt Supplies  
made by the Taxable Person during the last calendar year**

The above equation does not include the value of supplies of capital assets made by the taxable person, as the value of the supply of capital assets is excluded from the total value of annual taxable supplies, provided that the capital asset is used to operate and enhance the continuity of economic activity that is practiced by the person according to a commercial registration or a similar license from the competent authority, and the asset should not have been kept to earn rental income or similar income or to supply it later.

Alternative methods for the calculation of the default proportional deduction other calculations than the value of supplies, may be approved with ZATCA in cases where these better reflect the actual use of VAT incurred. Further information about deduction of VAT and proportional VAT recovery will be provided in a separate guideline.

**Example (15):**

A municipal authority carries on its activity in a public capacity as required of it by the Ministry of Municipal and Rural Affairs. It also owns properties which it rents for residential and commercial usage.

The municipal authority is not designated as an Eligible Person for tax refunds, and therefore Input VAT deduction is therefore only available to the extent costs relate to an Economic Activity. During 2019, the supplies made and received in relation to each activity are as follows:



	Supplies made (SAR)	Taxable supplies re-ceived (SAR)	Input VAT deduction
<b>Public activities</b>	0 No income: centrally funded	4,800,000 (plus VAT of 720,000)	No Input VAT deduction - not incurred in Economic Activity
<b>Taxable commercial rental</b>	200,000 plus output VAT of 10,000	50,000 (plus VAT of 7,500)	Input VAT deduction for SAR 7,500
<b>Exempt residential rental</b>	300,000 (exempt from VAT)	150,000 (plus VAT of 22,500)	No Input VAT deduction because the supplies are exempt from VAT
<b>Non-attributable overheads, relating to all activities, economic and non-economic</b>	N/A	1,000,000 (plus VAT of 150,000)	Input VAT deduction for SAR 800

The authority's major activities are the activities that it carries out in its capacity as a public authority -therefore non-attributable overheads relate to Non-Economic Activities, and partly to Economic Activities.

The allocation described in section 7.2 must be carried out first. The authority allocates this based on the supplies received, which reflects a fair and appropriate use of the overheads.

$$\frac{\text{Taxable supplies received for economic activities}}{\text{Taxable supplies received for economic and non-economic activities}} = \frac{(50,000 + 150,000)}{(50,000 + 150,000 + 4,800,000)} = 4\%$$





It can be seen from the above that the proportion of overheads that can be attributed to economic activities amounts to 4% of the total overheads (SAR 40,000), and the tax paid thereon is SAR 6000. In order to calculate the deduction of input tax, the municipality must thereafter attribute that tax of SAR 6000 to taxable supplies and exempt supplies, using the apportionment mechanism between the taxable supplies and the exempt supplies, as follows:

$$\frac{\text{Value of taxable supplies made in the last calendar year}}{\text{Value of taxable and exempt supplies made in the last calendar year}} = \frac{(200,000)}{(300,000 + 200,000)} = 40\%$$

The municipal authority is able to deduct Input VAT for SAR 2400, being 40% of the SAR 6000 of VAT on overheads relating to taxable supplies.

#### 7.4. EXPENDITURE INCURRED FOR PRIVATE OR NON-ECONOMIC ACTIVITIES

Input VAT may not be deducted on any supplies which are for private purposes, or not incurred as part of a person's Economic Activity.

##### Example (16):

An IT consultant who is registered for KSA VAT purchases a software subscription for use on his business computer, and also purchases - for an additional fee - a family subscription to allow his family to use the same software at home. The additional fee for the family subscription is not incurred as part of the Economic Activity. The IT consultant is not able to recover VAT on the additional fee.

Some types of "blocked" expenditure (including motor vehicles and entertainment) are deemed to be received outside the course of an economic activity, and are specifically excluded from the right to deduct input VAT. <sup>20</sup>

(20) A detailed list of the blocked expenditures is listed under article 50(1), Goods and services deemed to be received outside of Economic Activity, Implementing Regulations



## 7.5. REFUND CLAIMS FOR AUTHORIZED ENTITIES

The Minister of Finance will issue a list of qualified persons who do not carry out an economic activity or who operate within a specified economic activity and who are permitted to make a request for a refund of tax paid on supplies of goods and services received by them in the Kingdom of Saudi Arabia.<sup>21</sup>

Certain bodies who do not carry on Economic Activity and cannot register for VAT may instead be eligible to submit claims for refund of VAT under this mechanism upon being included in the list of qualifying persons. Suppliers or service providers contracting with the government or public bodies should ensure that the tax invoices are issued showing accurately and correctly the name of the correct body as recipient (customer).

---

(21) Article 70 (1), Refund of Tax to designated Persons, Implementing Regulations



## 8. TAX OBLIGATIONS

All taxable persons must assess their tax obligation and comply with the conditions and obligations relating to VAT. This includes registration for VAT as required, and accurately accounting for the net amount of tax due and payable, and paying the tax when due, as well as keeping all of the necessary records, and cooperating with officials of the Authority when required. If a person is unsure of his obligations, he must contact the Authority through the website [Zatca.gov.sa](http://Zatca.gov.sa) or other means of communication, and he may also seek to obtain external advice from a qualified consultant. The most important tax obligations provided for in the Law and the Regulations are set out below.

### 8.1. TAX IDENTIFICATION NUMBER

All persons who carry on an Economic Activity and register for VAT purposes will receive a Tax Identification Number by ZATCA.

### 8.2. RESIDENCE OF SUPPLIER

The rules relating to the place of supply will, in many cases, be determined on the basis of the place of residence of the supplier or the customer. The expression “resident” includes a resident company if it has been established under the laws of the Kingdom, or if its central management is in the Kingdom. If a company or other legal person is incorporated outside of the KSA, but has a branch, place of business or other type of fixed establishment in the KSA, that company is also a resident.<sup>22</sup>

### 8.3. CHARGING VAT

Where a supply is made by a resident supplier, that supplier is responsible for being registered for VAT (if required) and charging VAT at the appropriate rate. The registered supplier must issue a tax invoice for each taxable supply.

---

(22) Article 1, Definitions, Unified VAT Agreement



If a supply of goods or services is made by a non-resident supplier to a recipient who is resident in the KSA and registered for VAT, the supplier should not charge VAT. The recipient is responsible for reporting VAT (at the appropriate rate) on their VAT return through the Reverse Charge Mechanism. Further information on the Reverse Charge Mechanism is provided in the VAT manual at [Zatca.gov.sa](http://Zatca.gov.sa).

So far as concerns taxable supplies subject to the basic rate of VAT (15%), VAT will be calculated at the rate of 15% on the total value of the supply.<sup>23</sup> In those cases in which the supplier receives money for the supply inclusive of VAT, VAT will be included in the amount received (VAT being calculated as being 15/115 of the amount received). Section 11 of this Guideline contains further information concerning supplies during the transitional period.

#### **8.4. ISSUING INVOICES**

A supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any other legal person not subject to VAT, by no later than fifteen days following the end of the month in which the supply is made.

Every taxable person must issue a simplified tax invoice in the event that the value of the supply is less than SAR 1000. With regard to supplies made by taxable persons to non-taxable natural persons, or any person other than the persons mentioned in the preceding paragraph, the taxable supplier must issue an invoice in the same form as the simplified invoice for the supplies. In both cases, the invoice must be issued no later than 15 days after the end of the month in which the supply took place.

The tax invoice must clearly detail certain information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged.<sup>24</sup>

If different rates have been applied to the supplies, the value of each item must be specified separately, as well as the VAT applied to that item. The tax invoice may be issued in the form of a commercial document (such as a ticket receipt), provided that that document contains all of the requirements for the issue of tax invoices and simplified invoices set out in the Implementing Regulations.

---

(23) Article 25, Tax Rate, Unified VAT Agreement and Article 26, Value of Supply of Goods and Services, Unified VAT Agreement

(24) Article 53, Tax Invoices, Implementing Regulations



Tax invoices are not required for supplies made outside the scope of VAT in the Kingdom of Saudi Arabia.

Further information on the requirements for tax invoicing can be found in the VAT manual or at [Zatca.gov.sa](http://Zatca.gov.sa)

## 8.5. FILING VAT RETURNS

Each VAT registered person, or the person authorised to act on his behalf, must file a VAT return with ZATCA 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 taxpayers with an annual turnover 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 the VAT manual or at [Zatca.gov.sa](http://Zatca.gov.sa)

## 8.6. 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 where the conditions specified in Regulations are met to do so,<sup>25</sup> but in all cases records must be made available to ZATCA on request.

All records must be kept for at least the standard retention period of 6 years. The minimum period for the keeping of records is extended to 11 years in connection with invoices and records relating to movable capital assets, and 15 years in relation to invoices and records relating to immovable capital assets.<sup>26</sup>

## **8.7. CERTIFICATE OF REGISTRATION**

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.<sup>27</sup>

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

## **8.8. REQUESTING A RULING**

If, having consulted the relevant law and guidance, you are unsure on how VAT applies to a particular activity or transaction that you carry out or intend to carry out, you may apply to ZATCA for a ruling. The request must set out the full facts relating to the particular activity or transaction on which the view of the Authority is requested.<sup>28</sup>

---

(25) Further detail in Article 66 (3), Records, Implementing Regulations

(26) Article 66, Records, Implementing Regulations, and Article 52, Capital Assets, Implementing Regulations. And Article 59, retention period for Tax Invoices, Records, and Accounting Documents, Unified VAT Agreement

(27) Article 8(8), Application for registration, Implementing Regulations

(28) Article 75, Rulings, Implementing Regulations



Rulings may be in one of the two following forms:

- Public: in which case ZATCA will publish details of the ruling, without any taxpayer-specific information; or
- Private: in which case ZATCA will not publish the ruling

A public or private ruling issued by ZATCA is not binding on ZATCA or on any taxpayer in respect of any transaction carried out and it cannot be relied upon in any way.

ZATCA is not obliged to respond to all requests for rulings. It will consider and prioritize requests based on factors such as:

- The level of information presented by the taxpayer in the request;
- The benefit to the wider taxpayer community in issuing a public ruling on the transaction or activity; and
- Whether there is existing law or guidance which addresses the request

## 8.9. CORRECTING PAST ERRORS

If it becomes apparent to the taxpayer that there is an error or an incorrect amount in a filed VAT Return, or of any other VAT obligation which he has not complied with, he should notify ZATCA and correct the error by amending VAT the tax return. Errors resulting in a net understatement of VAT (above SAR 5,000) must be notified to ZATCA within twenty days of becoming aware of the error or incorrect amount, and he must amend the previous return.<sup>29</sup>

For small errors, resulting in an understatement of the net VAT of less than SAR 5,000, he may instead correct the error by adjusting the net tax in the following VAT return.

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

---

(29) Article 63, Correction of returns, Implementing Regulations



## 9. PENALTIES

Penalties or fines may be imposed by the Authority on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations.<sup>30</sup>

Description of offence	Associated fine
Submit false documents with the intent of evading the payment of the VAT due or to reducing its value	. At least the amount of the VAT due . Up to three times the value of the goods or service
Move goods in or out of the Kingdom without paying the VAT due	. At least the amount of the VAT due . Up to three times the value of the Goods or service
Failure to register for the VAT in the allotted timeframe	SAR 10,000
Filing incorrect tax return, amend a tax return after submission or filing any VAT document with the Authority resulting in a lower amount due	Equal to 50% of the value of the difference between the calculated Tax and Tax due
Failure to file VAT return in time	5-25% of the VAT that should have been declared
Failure to pay the VAT in time	5% of the VAT due for each month or part thereof
Collecting VAT without being registered	Up to SAR 100,000

(30) Chapter 16: Articles (41), (42), (43), (44), (45) and (47) of VAT Law - Tax Evasion and Penalties





Failure to not maintain books and records as stipulated in the regulations	Up to SAR 50,000
Preventing ZATCA employees from performing their duties	Up to SAR 50,000
Violation of any other provision of the VAT regulations or the VAT law	Up to SAR 50,000

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

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



## 10. TRANSITIONAL PROVISIONS

VAT applies in principle on all transactions carried out as part of an Economic Activity taking place after 1 January 2018.

### 10.1. TRADE BETWEEN THE GCC COUNTRIES THAT APPLY VAT

In many cases, the rules for determining the application of VAT depend on whether a supplier or customer is resident in the GCC Territory, or if the person is Taxable in another GCC Member State.

In all cases where another GCC State does not yet have a domestic VAT system, or where an electronic system between the states that have introduced it has not been introduced, the application of KSA VAT will be determined on the basis that:<sup>31</sup>

- Territory of that state is outside the GCC Territory;
- Residents of a state that has not introduced VAT will be considered as residents of a third country; and
- Businesses in that state will not be Taxable Persons until VAT is introduced and they have registered for VAT with the relevant authority.

#### Example (17):

Al Diyafa Company Limited is a company in the Kingdom of Saudi Arabia providing webhosting services to a business established in Kuwait during April 2018, which are used by the customer in Kuwait. If Kuwait has not introduced VAT by the date that the performance of the service comes to an end, this will be considered the provision of services to a customer outside of GCC Territory, where the services are used outside of GCC Territory. On this basis, Al Diyafa Company may zero-rate the supply of these services.

---

(31) Article 79(6), Transitional provisions, Implementing Regulations. In all cases, implementation of the electronic services scheme between all GCC countries must have started in order for the supplies to be treated as internal supplies



## 10.2. TRANSITIONAL REGISTRATION THRESHOLD

During a transitional period up to 1 January 2019, KSA resident persons carrying on Economic Activity will only be required to register where annual turnover exceeds SAR 1,000,000.<sup>32</sup>

These persons will still be eligible to apply for optional VAT registration if they exceed the voluntary registration threshold mentioned in section 4.3 of the Guideline.

For persons whose annual taxable supplies in 2019 exceed the mandatory registration threshold of SAR 375,000, or who expect annual taxable supplies during 2019 to exceed that threshold, applications to register must be filed by 20th December 2018.

---

(32) Article 79(7), Transitional Provisions, Implementing Regulations



## 11. CONTACT US

For more information on any taxable transaction, please visit the website [Zatca.gov.sa](http://Zatca.gov.sa) or contact us on the following number: 19993.

## 12. Q&A

### 1. Do I need to charge VAT on supplies I make to a Government body?

Yes. Even if a Government body does not carry on an Economic Activity, supplies to government entities will still be subject to VAT, similar to supplies to a consumer.

### 2. Will the Government include VAT on its charges to me?

This depends on whether its charges are made in its capacity as a public authority. You may wish to speak to the Government entity regarding the supplies of goods or services, to confirm the appropriate VAT treatment, since the supplier has the responsibility to apply the correct VAT treatment.

### 3. Is VAT included on wages?

No, wages or salaries paid to employees are not consideration for supplies made during an Economic Activity and therefore VAT should not be charged.

### 4. We are a charity registered as a public association with the Ministry of Labour and Social Development. How does VAT apply to us?

You must review your activities in accordance with the VAT Law and the Implementing Regulations, and the summary given them in this guideline to determine if you carry on an Economic Activity, and whether you must register for VAT or not. If you make sales of goods and services to third parties, it is likely that you will need to register for VAT and charge VAT on those sales.



**5. Does VAT apply to non-profit organizations?**

In principle, yes. VAT applies to any organization which carries on an Economic Activity. For VAT purposes, it is not necessary that the organization seeks to make a profit on its Economic Activities.

**6. I have sold my car online. Do I need to charge VAT?**

If this is a one-off sale of your personal vehicle, no. This does not constitute an Economic Activity.

**7. We are a holding company in the Kingdom, and we do not sell goods or provide services, nor do we have any revenues (only management operations for subsidiary companies, and collecting profits from them). In the event that we buy assets for the business “capital expenses”, will the VAT paid thereon be claimable? And what if there has been registration as a tax group?**

If the company has not carried on any economic activity, it may not deduct input tax incurred on capital assets. However, the provision of services to the subsidiary companies is an economic activity. If the holding company has carried on economic activities and has been registered as a tax group, the company may reclaim VAT paid on commercial assets used in that economic activity, in accordance with the usual.



Scan this code to view the last  
version and all published documents  
Or visit the website [zatca.gov.sa](http://zatca.gov.sa)