



Guideline

For the Financial Services Sector

under VAT Provisionse



The Zakat, Tax and Customs Authority has prepared and issued this Guideline to provide clarification on certain treatments and procedures related to the application of the regulatory provisions that were in force at the time this Guideline was released. The material presented in this Guideline should not be interpreted as modifying, replacing, or amending any of the applicable laws or regulations in force within the Kingdom.

The Authority affirms that, where relevant, it will apply the interpretative treatments set out in this Guideline in accordance with the applicable regulatory provisions. Should any clarification or content contained in this Guideline be updated without a corresponding amendment to the underlying regulatory provisions, the revised interpretative guideline will apply only to transactions conducted after the date on which the updated version of the Guideline is published on the Authority's official website.



Amendment log

#	Edition No.	Amendment Date	Section/Item	Amendment Type	Amendment Description	Remarks
1	2	May 2026	7.5	Amendment	The update is in accordance with the amendments to the Implementing Regulations of the Value Added Tax law issued pursuant to Board Resolution No. (01-06-24) dated 17 Jumada Al-Awwal 1446 H, corresponding to 19 November 2024	-



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1. Introduction

1.1 Application of the VAT Law in the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia ratified the Unified Value Added Tax ("VAT") Agreement for the Cooperation Council for the Arab States of the Gulf ("GCC") pursuant to Royal Decree No. (M/51) dated 3rd Jumada al-Ula 1438H/31st January 2017 ("Unified VAT Agreement"). Pursuant to the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia issued the VAT Law pursuant to Royal Decree No. (M/113) dated 2nd Dhu al-Qa'dah 1438H/25th July 2017 ("VAT Law"), as well as the Implementing Regulations of the VAT Law pursuant to the Board of Directors of the former General Authority of Zakat and Tax (currently, the Zakat, Tax and Customs Authority) Resolution No. (3839) dated 14th Dhu al-Hijjah 1438H/5th September 2017 ("Implementing Regulations of the Law"), and in the form amended by subsequent Board Resolutions.

1.1.1. Zakat, Tax and Customs Authority

Council of Ministers Resolution No. (570) dated 22nd Ramadan 1442H/4th May 2021 was issued, providing for the merger of the General Authority of Zakat and Tax and the General Customs Authority into a single entity under the name of the Zakat, Tax and Customs Authority.

The Authority undertakes the collection of Zakat and taxes, as well as customs duties, and seeks to achieve the highest levels of compliance among taxpayers in accordance with best practices and with high efficiency. The Authority also aims to enable the Kingdom to become a global logistics hub by facilitating trade, protecting national security, and regulating and managing all activities related to customs operations and customs ports, in a manner that ensures their development to the highest levels of efficiency, productivity, and competitiveness, through the provision of high-quality services with a focus on the customer in accordance with best practices.



1.1.2 What is VAT?

VAT is an indirect tax imposed on the import and supply of goods and services at each stage of production and distribution, with certain exceptions. VAT is applied in more than 160 countries worldwide.

VAT is a consumption tax that is charged and collected at each stage of the supply chain, starting from the manufacturer's purchase of raw materials through to the retailer's sale of the final product to the consumer.

Unlike other types of taxes, persons subject to VAT are required to:

- collect VAT from their customers on each taxable sale in accordance with a specified percentage;
- pay VAT to the suppliers from whom they receive goods or services, where applicable, on each taxable purchase in accordance with a specified percentage.

When persons subject to VAT sell a good or provide a service, they must impose VAT at a rate of 15% (assuming the Standard Rate applies to such supplies), which is added to the final sale price.

Persons subject to VAT must account for the 15% collected from taxable sales separately from their revenues in order to remit it to the Authority. VAT collected by businesses on their sales is referred to as Output VAT.

Similarly, purchases made by persons subject to VAT are treated such that VAT at a rate of 15% is added to purchases of goods and services made by such persons. VAT paid by them to suppliers is referred to as Input VAT.



1.2 This Guideline

This Guideline primarily aims to clarify the tax treatment relating to the financial services sector, including insurance.

This Guideline is directed to entities operating in the financial services sector, including commercial banks, insurance companies, asset finance companies, and any other entities providing financial services as part of their general activities.

For further guidance on any specific transactions, a request for a ruling may be submitted, or the official VAT website at zatca.gov.sa may be visited, which includes a wide range of tools and information to assist persons subject to VAT and businesses, as well as visual guidance materials, relevant publications, and frequently asked questions.

2. Definitions Related to Key Terms

Financial Services: The term generally means financing and credit services or dealing in money and financial products and instruments as part of an economic activity. Except for a life insurance contract, the term "Financial Services" is not defined for VAT purposes; however, the Implementing Regulations refer to non-exhaustive items that are considered Financial Services.

The following items are specifically listed as Financial Services as set out in the definition⁽¹⁾:

- a. The issuance, transfer, receipt of, or any dealing in money, any financial instrument, any currency, or payment orders.
- b. The provision of any credit or credit guarantee.
- c. The operation of any current account, deposit account, or savings account.
- d. Financial instruments such as derivatives, options, swaps, debt swaps, and futures contracts.
- e. The issuance or transfer of debt securities, securities, or any other negotiable documents evidencing an obligation to pay a monetary consideration to the holder.
- f. The issuance or transfer of a life insurance contract or a life reinsurance contract.

(1). Article 29, Financial Services, Implementing Regulations.



The above list is not exhaustive. There are other services relating to financing arrangements and dealings in money that are not expressly stated above but are considered Financial Services. The Annex to this Guideline sets out a list of services commonly provided in the financial services sector, including the VAT treatment applicable to each service.

Although Financial Services are subject to regulation and supervision by the competent authorities, which assists in clearly determining the nature of supplies of Financial Services by persons subject to such supervision, the supply of Financial Services for VAT purposes is not limited to suppliers regulated and supervised by the competent authorities. Rather, any person providing Financial Services must correctly assess the VAT treatment applicable to its supplies and services in accordance with the VAT Law.

Example (1):

A manufacturer provides a credit facility on goods supplied to its customers and charges interest on outstanding amounts. The manufacturer is considered to have supplied Financial Services by providing such credit facility.

Example (2):

A company within a group of companies provides loans to other companies within the same group, and such loan is provided through the issuance of debt securities. The financial company is therefore considered to have supplied Financial Services.

Securities: This term is not defined for VAT purposes. The Authority considers that, for VAT purposes, it includes debt securities, equity securities, units, subscription rights warrants, certificates, shares, option contracts, futures contracts, and contracts for differences.

Debt Security: This term is not defined for VAT purposes. The Authority considers that, for VAT purposes, it means any debt instrument giving rise to indebtedness that constitutes an acknowledgment of debt issued by companies, governments, or public institutions (such as Sukuk), and that debt securities are tradable.



Debt securities take various forms, including, without limitation, corporate bonds, government bonds, asset-backed securities, deposit certificates, and bonds. Commercial papers such as cheques and bills of exchange are excluded.

Equity Security: This term is not defined for VAT purposes. The Authority considers that, for VAT purposes, it means any instrument evidencing legal ownership by a person in an entity or enterprise. It includes shares, interests, and any instrument or document representing ownership rights in an entity or enterprise, participation in the capital of an entity or enterprise, or the right to obtain profits or a portion thereof. Equity securities may be tradable.

Economic Activity: This term refers to activities falling within the scope of VAT, including business activities and any other activities carried out by persons on a regular and continuous basis.

The definition of the term in the Unified VAT Agreement for VAT purposes provides as follows⁽²⁾:
"An activity conducted continuously and regularly and includes industrial, commercial, agricultural, professional, or service activities or the use of tangible or intangible property and any similar activity."

Taxable Person: Any person who carries on an Economic Activity independently for the purpose of generating income and who is registered or required to register for VAT purposes. It includes any natural or legal person, public or private, or any other form of partnership.⁽³⁾

Life Insurance Contract: This term is defined in the Implementing Regulations of the VAT Law as follows:

Any conventional, Takaful, or other Islamic insurance contract provided by a provider licensed in the Kingdom, under which a sum is payable upon death or upon the occurrence of a life-affecting event, or any similar contract provided by a non-resident supplier.⁽⁴⁾

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

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

(4). Article 29(8), Financial Services, Implementing Regulations.



3. Economic Activity and VAT Registration

3.1 Economic Activity

Economic Activity can be carried out by both natural and legal persons. Legal persons, such as companies and institutions, are considered to carry out an Economic Activity if they engage in regular activity involving the making of supplies. It should be noted that natural persons may carry out certain activities as part of their Economic Activity or as part of their private activities; therefore, specific rules exist to determine whether a natural person falls within the scope of VAT.

Natural and legal persons who carry out an Economic Activity must register for VAT if required. Such persons are also required to collect VAT applicable to their activities and remit the collected VAT to the Authority.

Example (3):

Abjad Company, a company resident in the Kingdom of Saudi Arabia, carries out exclusively exempt Financial Services supplies. The value of these supplies is not taken into account for determining the registration threshold for VAT purposes; therefore, Abjad Company is not required to register.

Abjad Company received services worth SAR 1,500,000 from a foreign company. As a result, Abjad Company is required to account for VAT under the reverse charge mechanism and declare it. Since Abjad Company is carrying out an Economic Activity, it must register for VAT in the Kingdom because the value of the received supplies, for which it is liable to pay VAT, exceeds the mandatory registration threshold. Additional details are provided in Section 3.2 of this Guideline.



3.2 Mandatory Registration

Registration is mandatory for all persons whose annual revenues exceed a specified registration threshold. If the total value of a person's taxable supplies during a period of 12 months exceeds SAR 375,000 (the "mandatory registration threshold"), that person must register for VAT purposes.⁽⁵⁾ This is subject to the transitional provisions set out in the Implementing Regulations relating to the mandatory registration threshold during the transitional period.

For the purposes of calculating the registration threshold, taxable supplies do not include the following: ⁽⁶⁾

- Exempt supplies, such as exempt Financial Services, or exempt real estate supplies.
- Supplies that fall outside the scope of VAT in any Member State of the Cooperation Council for the Arab States of the Gulf.⁽⁷⁾
- Proceeds from the sale of capital assets. Capital assets are defined as assets allocated for long-term business use.⁽⁸⁾

In specific cases, other provisions apply to mandatory registration:

- Non-residents of the Kingdom who are required to pay VAT in respect of supplies they make or receive in the Kingdom must register for VAT, regardless of the value of the supplies in respect of which they are required to collect and remit VAT.⁽⁹⁾

Further information regarding mandatory registration for VAT purposes is available through the website zatca.gov.sa.

(5). Article 3, Mandatory Registration Upon Exceeding the Mandatory Threshold, Implementing Regulations.

(6). Article 52, Calculation of the Value of Supplies, Unified VAT Agreement.

(7). The transitional provisions relating to Member States of the GCC that have not yet implemented VAT legislation should be taken into consideration - see Section 9.1.

(8). Article 3, Mandatory Registration Upon Exceeding the Mandatory Threshold, Implementing Regulations.

(9). Article 5 Mandatory Registration for Non-Residents Required to Pay Tax in the Kingdom of Saudi Arabia, Implementing Regulations.



3.3 Voluntary Registration

A person resident in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses exceed SAR 187,500 (the “voluntary registration threshold”) during a period of 12 months may apply for voluntary registration for VAT purposes.⁽¹⁰⁾

Example (4):

ABC Financing is a KSA company which has opened for business in 2018 and only expects to derive exempt financing income during 2018. It will just start to generate taxable income from its customers in 2019. The company incurs significant costs of SAR 2 million from local suppliers during the first quarter of 2018 in respect of IT costs and other costs from consultants, before any invoices are raised to customers.

ABC Financing can register on an optional basis as its annual taxable expenses exceed the voluntary VAT registration threshold. However, further consideration should be given on input VAT deduction in case of exempted financial services, for further details, please refer to section 8. Further information regarding voluntary registration for VAT purposes is available through the website zatca.gov.sa.

4. VAT Treatment Applicable to Financial Services

Financial Services include a wide range of financial products provided to both customers registered for VAT purposes and other customers.

Supplies of Financial Services made to a person resident in the Kingdom of Saudi Arabia are, in principle, exempt from VAT.⁽¹¹⁾ However, many supplies may be considered taxable depending on the nature of the consideration payable for such Financial Services. The table below provides a summary of the general principles detailed in this Guideline, as well as certain specific products.⁽¹²⁾

Further information will be provided in Section 7 concerning the place of supply in relation to Financial Services, subject to the Zero Rate or falling outside the scope of VAT.

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

(11). Article 29(1), Financial Services, Implementing Regulations.

(12). Article 29(2), Financial Services, Implementing Regulations.



• Financial Services where the consideration payable takes the form of an implicit margin or implicit profit margin (including, but not limited to, interest, profit margins, bid-offer spreads, and commissions charged with an implicit profit margin) • Similar monetary consideration charged on Islamic finance products • Issuance or transfer of debt securities or equity securities • Provision of life insurance or life reinsurance contracts	Exempt from VAT
• Financial Services provided within the Kingdom of Saudi Arabia where the consideration payable is explicitly charged, such as fees, commissions, or commercial discounts • Provision of insurance contracts (other than life insurance) • Fees of financial intermediaries.	Subject to VAT at the Standard Rate
• Financial Services supplied to a recipient resident outside the Kingdom of Saudi Arabia.⁽¹³⁾	May be subject to the Zero Rate

4.1 VAT Treatment of Financial Services: General Provisions

VAT is imposed on all Financial Services supplied within the Kingdom by a Taxable Person registered for VAT purposes where the consideration payable for the service takes the form of an explicit fee, commission, or commercial discount (i.e., not implicit).⁽¹⁴⁾

An explicit fee or explicit commission means a specified amount payable for the service, whether such amount is a fixed monetary value or a fixed percentage of a specified amount. A commercial discount means a specified amount that is deducted from another amount due.

This means that the supply of Financial Services is subject to VAT, where the value can be determined by reference to an explicitly stated fee. For example, in financial brokerage services, where the provider is not the principal of the financial product but only arranges or intermediates, the consideration is typically a stated fee or commission, and the intermediary does not bear the financial risks of the product.

(13). Article 34(2), Supply to Outside the Territory of the GCC, Unified VAT Agreement; and Article 78, Entry into Force, Unified VAT Agreement.

(14). Article 29(1), Financial Services, Implementing Regulations.



In relation to Financial Services exempt from VAT, such exemption applies solely to providers acting as principal, whose consideration consists of an implicit margin and who assume the actual risks associated with the service.

Suppliers of Financial Services typically receive consideration for many Financial Services in the form of interest calculated periodically or fees calculated on an implicit margin. The implicit margin may not be apparent to the customer as consideration for the Financial Service because it takes the form of a profit margin, a bid-offer spread, or gains earned as a result of the supplier providing financing. Where no explicit fee, commission, or commercial discount is charged by the supplier, any consideration (whether fee, interest, or commission) charged through an implicit margin shall be exempt from VAT.

Financial Service providers may supply both taxable and exempt Financial Services simultaneously as part of the same product. Such cases should be treated in accordance with the relevant interpretations.

Example (5):

Al Madinah Bank, a bank in the Kingdom, grants a mortgage-backed loan to Saeed (the customer), a person resident in the Kingdom of Saudi Arabia. Saeed will pay interest to Al Madinah Bank based on the interest rates offered by the bank. The bank will also charge an annual fee of SAR 220 to the customer as an administrative fee.

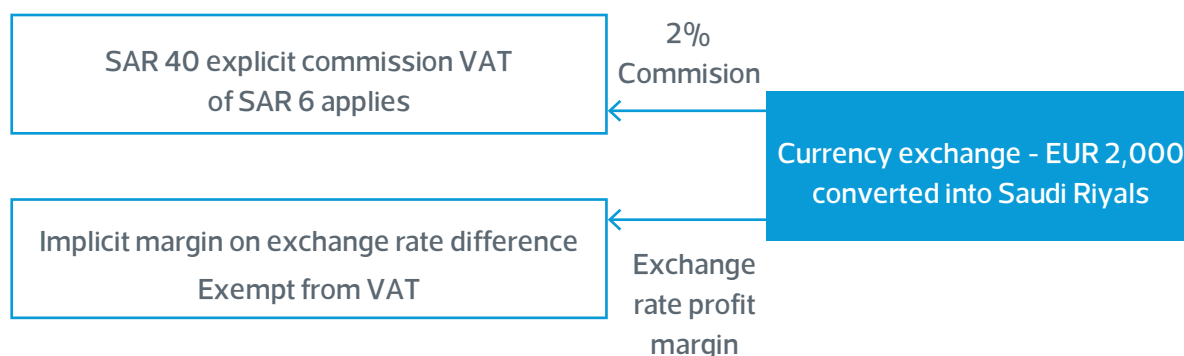
Accordingly, the interest received by the bank is exempt from VAT, as it constitutes an implicit margin in respect of Financial Services. The administrative fee, however, is subject to VAT at the Standard Rate, as the bank applies an explicit fee for that service. VAT shall be imposed on the annual administrative fee.

Example (6):

A currency exchange charges a commission of 2% to a person resident in the Kingdom of Saudi Arabia (the customer) for converting SAR 2,000 into euros. The currency exchange also achieves a margin by offering an exchange rate higher than the rate at which it acquires the currency.



The 2% commission (SAR 40) is explicit and is, therefore, subject to VAT. The profit margin realized because of the difference in exchange rates constitutes an implicit margin and is, therefore, exempt from VAT.



4.2 Application of the Tax Exemption: Special Products

Annexes 1 and 2 to this Guideline set out the tax treatment of the consideration for a number of products offered within the financial services sector.

4.2.1 Bank Accounts

Financial services include the management and operation of bank accounts (including the opening, closing, and pledging of accounts) and the execution of transactions on a current account, deposit account, or savings account. These services are subject to tax exemption, except in cases where the consideration for the service consists of an explicit fee, commission, or explicit commercial discount, as such consideration is specified and not implicit.

Due to the commercial nature of bank accounts and the activities related to operating such accounts, the supplier typically charges consideration for the financial service in the form of a fee or commission (such as a registration fee or deposit fee). Accordingly, most fees payable for these services are not exempt from tax. Conversely, the tax exemption applies to interest charged on overdraft facilities.

(15). Article 29(2)(c), Financial Services, Implementing Regulations.



4.2.2 Card Services

Credit cards, debit cards, and store cards enable the purchase of goods and services and, in certain cases, cash withdrawals. However, any fees imposed on the customer in consideration of subscription, renewal, or use of the card (including fees imposed on cash withdrawal transactions) constitute taxable services. ⁽¹⁶⁾

The tax exemption applies to credit facilities provided where card services include the granting of credit services to the cardholder and the consideration is paid in the form of an implicit margin (i.e., interest charges). A financial services provider issuing credit cards may be regarded as supplying services to multiple parties, as follows:

First, to cardholders who pay a subscription fee subject to VAT and any other fees subject to VAT in consideration for the use of the cards. As explained above, the granting of credit in return for interest or any other implicit margin is exempt from VAT

Second: The merchant, i.e., the business that accepts payment through the use of the card (such as a retailer). The financial services provider issuing the credit cards transfers the value of the transactions to the retailer after deducting a fee or commercial discount (which, in many cases, is a specified percentage of the amount paid using the card). Accordingly, such fees are subject to tax at the Standard Rate.

It is known that, for such businesses (the merchant) to accept card payments, the merchant is required to contract with a financial institution (hereinafter referred to as the "Merchant Bank") to purchase or lease electronic devices to facilitate card payment transactions. Accordingly, the consideration payable to the Merchant Bank for the sale or lease of the devices is subject to tax at the Standard Rate (15%).

If the Merchant Bank is not the same bank as the bank issuing the card used for payment (the "Issuing Bank"), in such case the Issuing Bank must settle and transfer the amounts relating to the transactions executed using the cards it has issued to the Merchant Bank, since the Merchant Bank would have transferred the amounts due to the merchant. The amounts transferred are not subject to VAT.

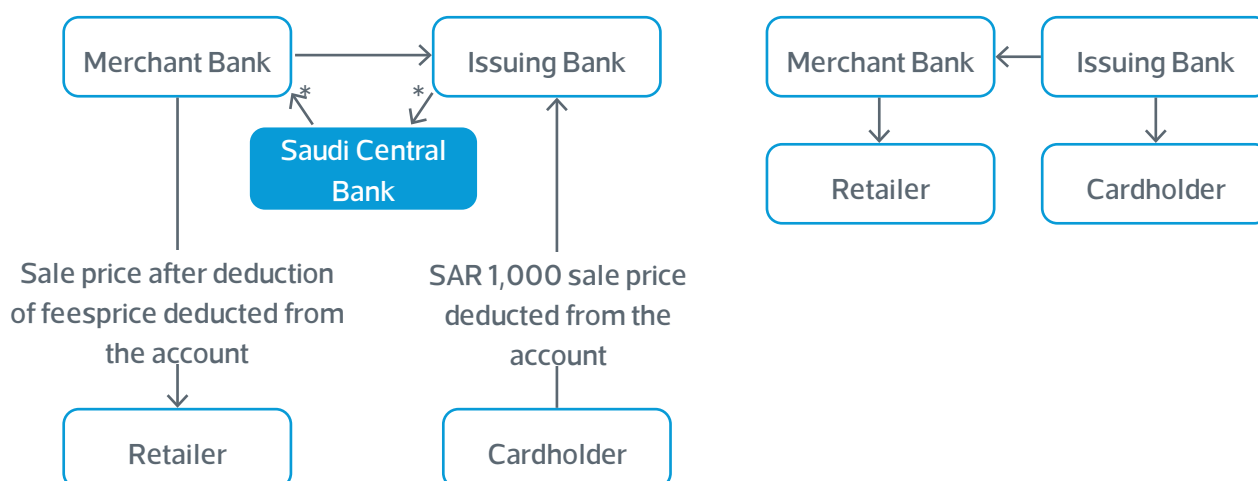
(16). Article 29(5)(a), Financial Services, Implementing Regulations.



The Issuing Bank typically deducts an internal transfer fee from these payments transferred to the Merchant Bank. Accordingly, such fees are subject to VAT at the Standard Rate. As per the procedures currently followed by the Saudi Arabian Monetary Authority, banks are notified of the value of internal transfer fees payable by and receivable from them on a net fee basis. Therefore, banks are required to determine the gross amount of internal transfer fees received by them and will be responsible for issuing the tax invoice in respect of such amounts.

Internal Transfer Fees Between Banks

Payment Flow (Purchase of SAR 1,000)



*The total net value of internal transfer fees between banks is paid



4.2.3 Transfer of Funds

For VAT purposes, financial services include the issuance, transfer, receipt, or any dealing in money, or any dealing in a financial instrument, banknotes, or orders for the payment of money. Such financial services are exempt from VAT, except in cases where the consideration for the service is in the form of an explicit fee, commission, or commercial discount.⁽¹⁷⁾

- Money includes local or foreign currencies (whether in the form of banknotes, coins, or transferred electronically).
- Financial instruments or orders for the payment of monetary amounts are instruments that entitle the holder to redeem them for money, such as cheques, traveler's cheques, or money orders.

Cash Currencies

The profit margin earned by a foreign exchange provider in consideration for currency exchange (resulting from the difference between the bid and ask prices of the currency), and discounts on the nominal value of traveler's cheques, are considered implicit margins realized as consideration for the provision of money or financial instruments. Accordingly, such implicit margin is exempt from VAT.

In cases where an explicit fee or commission is charged on activities (such as international transfer fees), such transactions are subject to VAT at the Standard Rate.

In many other cases, financial services providers do not receive separate consideration for the supply of local currency (for example, through cash withdrawal or deposit transactions), unless the service provider charges an explicit fee or commission, which is therefore subject to tax at the Standard Rate.

The sale of commemorative currency or currency used by collectors - where the purpose is not use as official currency - constitutes a supply of goods subject to VAT at the Standard Rate.

(17). Article 29(2)(a), Financial Services, Implementing Regulations.



Electronic Transfer of Funds

Due to the commercial nature of modern activities relating to cash management services and electronic banking activities, the consideration received by the financial services provider often consists of a fee or commission (such as transaction execution fees and electronic payment fees), which are subject to tax.

4.2.4 Trade Services

For the purpose of facilitating domestic and international trade, financial services providers offer products to their customers to finance such transactions. Examples of these products include bills of exchange, (standby) letters of credit, guarantees, and bank debt instruments. All such products represent a commitment by the financial services provider to fulfill the obligations of the transaction (upon satisfaction of specified conditions).

The implicit margin paid in respect of trade finance services, such as income derived from discounts on the nominal value of debt instruments or interest, is exempt from VAT.⁽¹⁸⁾

However, any explicit fees or commissions charged to the customer in consideration for providing such services are subject to VAT at the Standard Rate (provided that such services are performed within the Kingdom of Saudi Arabia in accordance with the rules relating to the place of supply). Section 7 of this Guideline provides further details regarding the place of supply rules.

4.2.5 Borrowing

Services involving the provision of facilities by way of borrowing or credit may include the issuance of debt instruments and the collection of interest thereon. Such interest or borrowing charges imposed in the form of an implicit margin are treated as financial services exempt from VAT.⁽¹⁹⁾

(18). Article 29(2)(b), Financial Services, Implementing Regulations.

(19). Article 29(5)(a), Financial Services, Implementing Regulations



Example (7):

Ahmed, a person resident in the Kingdom of Saudi Arabia, entered into an agreement with the Development Bank, resident in the Kingdom of Saudi Arabia, to finance the purchase of assets. The tax exemption shall apply to the interest charged on the amount of financing (loan) or any other implicit (profit) margin imposed by the bank.

In addition, transactions relating to debt instruments, such as the issuance or transfer of a loan or loan portfolio, securitization of debt, sale of debts, or sale of receivables, are considered outside the scope of VAT.

In general, interest and borrowing charges exempt from VAT are treated as revenue for the purposes of determining the lender's tax position. However, the principal amount of the debt is regarded as a capital asset and is not taken into account when calculating the value of revenues for the purposes of determining the VAT registration threshold or when calculating revenues for the purpose of the proportional deduction calculation. Further information on partial deduction of VAT is provided in Section 8 of this Guideline.

A detailed description of the tax treatment applicable to asset financing is provided under Paragraph 4.2.6 and Paragraph 4.2.9 relating to Islamic finance products.

Temporary Transfer of Ownership of Goods as Financing Security

Real estate financing or asset financing transactions typically involve a temporary transfer of ownership of assets (goods) as security, and not with the intention of permanently transferring ownership or possession of the goods. The holder of the security does not take possession of the goods and does not have the right to dispose of them without the consent of the original owner. The holder must transfer ownership of the goods back to the original owner in accordance with the financing agreement, which usually provides for re-transfer of ownership upon the borrower fulfilling their obligations toward the financier.

In such cases, the transfer of ownership of the goods constitutes a temporary transfer for security purposes only and does not result in the transfer of the right of disposal or use to the security holder, unless the financing agreement stipulates a condition providing for transfer of ownership in the event of the borrower's default.



Syndicated Loans

Syndicated loans are provided through the participation of a group of financiers, where one financier acts as the lead financier and is responsible for the initial arrangement and administration of the syndicated loan, and collects amounts paid on behalf of the other lenders. Where the lead financier acts on behalf of the other financiers in this manner, each financier's share of the interest due is considered revenue exempt from VAT.

Example (8):

Saudi Bank (A), Saudi Bank (B), and Saudi Bank (C) participate in a group to grant a loan to a single customer. Saudi Bank (A) is the lead financier and is entitled to 40% of the revenue. In its capacity as lead financier, it is entitled to receive the full amount of interest due from the borrower and then distribute the other financiers' shares of the revenue (i.e., interest) to them (each receiving 30% of the revenue).

Saudi Bank (A) deducts a quarterly management fee from the shares of the other financiers of SAR 50 in consideration for acting as the lead financier.

In the first quarter of 2021, Saudi Bank (A) received interest of SAR 7,200 on behalf of the other financiers. The VAT-exempt revenue to be declared by Saudi Bank (A) is the amount of interest received corresponding to its share of the loan, amounting to SAR 2,880. Saudi Bank (B) and Saudi Bank (C) each receive VAT -exempt income equal to their respective share of the loan (SAR 2,160). Saudi Bank (A) will charge VAT on the management fee of SAR 50 in consideration for the services provided to the group members. The VAT due by each of them amounts to SAR 7.5. This fee constitutes a supply separate from the distributed interest. Saudi Bank (A) is required to issue an invoice to each of Saudi Bank (B) and Saudi Bank (C) specifying the tax imposed on the management fee at 15%. Saudi Bank (A) is not required to issue any invoices in respect of the distributed interest. For VAT purposes, the distribution of interest is considered a direct payment from the borrower to the group members and is outside the scope of VAT.



The invoice issued by Saudi Bank (A) to each of Saudi Bank (B) and Saudi Bank (C) includes the following details (Simplified Tax Invoice):

Invoice Number Tax Identification Number		
Interest collected on behalf of the customer		
Administrative fee	2,160.00	(1) - Outside the Scope of Tax
VAT at 15%	50.00	(2)
VAT at 15% on the Administrative Fee	7.50	(3) - (Tax = SAR 50 × 15%)
Total Amount Received from You	2,112	(1) - (2) - (3)

4.2.6 Asset Financing

Financial services suppliers, for the purpose of asset financing, provide the asset subject to the contract (the principal asset) for the borrower for a specified period through a lease contract, lease-to-own contract, or other conditional sale contract.

Operating Lease

There is a distinction between an asset financing product and an operating lease. Under an operating lease contract, ownership of the principal asset is not transferred to the recipient either at the commencement or at the end of the lease term. The lessee is expected, at the end of the term, to return the goods to the lessor or enter into a new contract, where applicable. Since an operating lease does not contain a financing element, it is fully subject to VAT.



Asset Financing

Asset financing contracts provide for the transfer of possession of the goods to the customer, with the possibility of transferring ownership to the customer no later than the date on which full payment of the consideration for the goods is made.

The transfer of goods under financing contracts, where it is evident that the primary purpose of entering into the contract is to obtain the asset subject to the contract, is regarded as a supply of goods. By contrast, contracts such as long-term lease agreements are not considered a supply of goods, as the purpose of the contract is not to transfer the leased goods to the recipient.

Asset financing contracts generally include two components:

- The principal component (supply/purchase of the asset) - representing the value of the asset subject to the contract and any additional services (such as insurance). This principal component is subject to tax (except for exempt real estate supplies).
- The financing component - represented by the profit margin accruing to the financier for financing the asset. Repayment of the principal amount of the loan to the financier is outside the scope of tax, while interest payable to the financier on the loan constitutes an exempt supply from VAT where charged as an implicit margin.⁽²⁰⁾

Accordingly, the periodic instalments due will include both a taxable supply (being the supply of the assets) and an exempt supply (being the supply of financing). The asset financier is required to clearly identify the principal component and the financing component and apply the appropriate tax treatment to the instalments due.

The value of the principal component must reflect the total value of the goods and services supplied, and the asset financier must be able to substantiate the mechanism used to calculate the value of both the principal component and the financing component.

(20). Article 29(5)(c), Financial Services, Implementing Regulations.



Tax becomes due in full on the date on which possession of the financed asset is transferred to the customer. The financier may require the customer to pay the total amount of tax on the due date or include it within the value of the financed asset so that the customer may settle it in instalments. This is a commercial matter at the discretion of the financier and does not affect the date on which the tax becomes due.

Example (9):

A finance company sells a vehicle to Fares under a finance lease contract with a term of 5 years, with the possibility of transferring ownership to Fares at the end of the term, provided that all monthly instalments are paid and the contractual conditions are satisfied.

The market value of the vehicle is SAR 250,000. Fares also obtains insurance (valued at SAR 20,000 over the 5-year period) and a maintenance service package (valued at SAR 30,000 over the 5-year period).

The total value of taxable goods and services supplied is SAR 300,000. The contract is signed on 01/03/2021, and Fares takes possession of the vehicle on 04/03/2021.

The finance company collects monthly instalments of SAR 6,125 from Fares over 60 months (totaling SAR 367,500), of which SAR 30,000 represents the profit margin earned on the financing.

	60 Months	Monthly
Market value of the vehicle (Principal component)	SAR 250,000	4,166.67
VAT (250,000 × 15%)	SAR 37,500	625
Insurance (Principal component)	SAR 20,000	333.33
Service package (Principal component)	SAR 30,000	500.00
Profit margin on financing (Financing component)	SAR 30,000	500.00
Total	SAR 367,500	6,125



VAT becomes due on the value of the vehicle (SAR 250,000) on the date Fares takes possession of the vehicle, i.e., on 04/03/2021. It is payable at that time, and the full amount must be declared in the tax return submitted for March 2021. The finance company collects the tax amount (SAR 37,500) from Fares in monthly instalments together with the value of the vehicle principal, insurance, maintenance service package, and profit margin. However, the finance company is required to issue a tax invoice for the supply of the vehicle.

Invoice No. 1000001	Value	
Monthly instalment for the vehicle	4,791.67	(1) (VAT applied in Invoice No. 1000001)
Insurance and maintenance service package instalment	833.33	(2)
Profit margin on financing	500	(3)
VAT at 15% on insurance and service package only	125	(4) - (Tax = 833.33 × 15%)
Total amount due	6,250	(1) + (2) + (3) + (4)

4.2.7 Financial Markets/Currencies

Financial markets are markets in which securities are traded. The issuance or transfer of securities by a person acting in their own name as principal, and profits earned from trading in other instruments such as derivatives, options, swaps, debt swaps, and futures contracts, are all supplies exempt from VAT.⁽²¹⁾ Money market transactions are also considered supplies exempt from VAT.

The tax exemption does not apply to fees charged by brokers or intermediaries who do not act as principals in their own name.

(21). Article 29(2)(d) and (6), Financial Services, Implementing Regulations.



4.2.8 Transfer and Collection of Debts

Securitization is the procedure by which accounts receivable (outstanding debts) are sold from the originator of the debt to a third party (often a special purpose company) as a direct and explicit sale. The purchaser assumes full risk for any uncollected debts and may engage a third party to collect the debts.

The securitization of a debt portfolio, relating to the direct transfer of the debt, is treated as a transfer of a debt instrument and is therefore considered a financial service supply exempt from tax. This does not affect any of the original supplies provided by the debt originator that gave rise to the debt. However, the VAT on those original supplies must still be declared in accordance with the provisions relating to the supply date of that transaction.

Explicit fees charged for the securitization of debts are subject to VAT. The collection of debts due is not considered a supply.

Example (10):

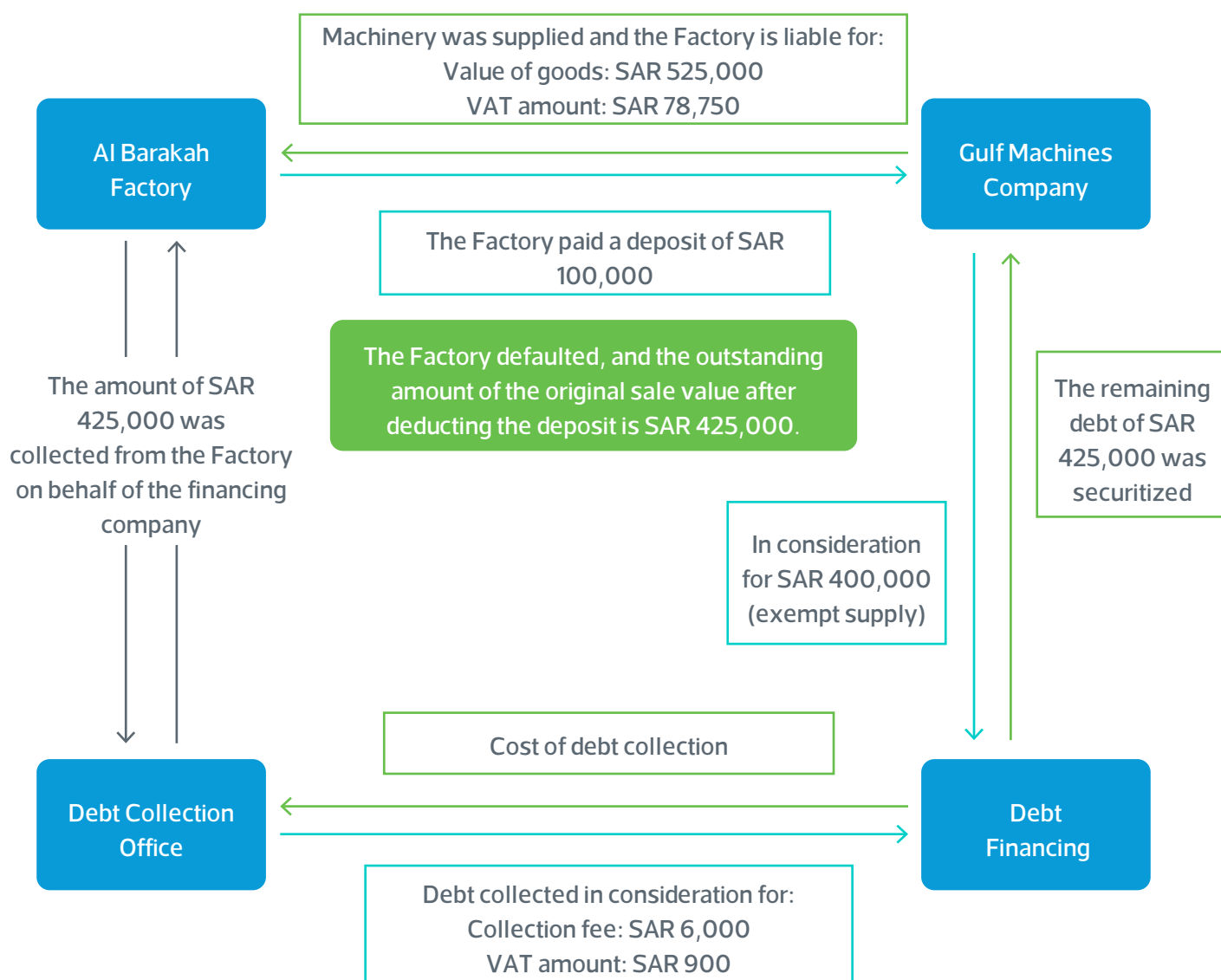
Gulf Machines Company, a company resident in the Kingdom of Saudi Arabia, sold and delivered machinery to the customer, Industrial Company, also resident in the Kingdom of Saudi Arabia, for SAR 525,000. The customer paid a deposit of SAR 100,000 upon delivery but failed to pay the remaining balance due after five months.

Gulf Machines Company sold the remaining debt of SAR 425,000 directly to a financial services company resident in the Kingdom of Saudi Arabia for SAR 400,000.

The manufacturer company is not required to adjust the original supply value (SAR 525,000) previously declared for the supply period. The sale of the debt by Gulf Machines Company constitutes a separate supply valued at SAR 400,000 and is outside the scope of tax. The transferred debt is treated as a capital asset, and its value is not considered when calculating the proportional deduction of input VAT.



The financial services company realizes a profit margin of SAR 25,000 to collect the full debt amount and appoints a collection agency as its agent. The collection agency charges a fee of SAR 6,000 (plus VAT of SAR 900) for performing its services.





1. Gulf Machines Company (Saudi Arabia) sells goods to the customer, Al Barakah Factory (Saudi Arabia), for SAR 525,000.
2. Gulf Machines Company charges VAT of SAR 78,750 on the supply and remits it to the Authority in its VAT return.
3. The customer, Al Barakah Factory, pays an advance (deposit) of SAR 100,000.
4. Gulf Machines Company sells the remaining debt of SAR 425,000 (SAR 525,000 less the deposit amount) to a financial services company for debt financing consideration of SAR 400,000. This sale is not considered a supply (but rather a transfer of a capital asset), and VAT does not apply.
5. The financial services provider, Debt Financing Company, agrees with a collection company to collect the debt on its behalf as agent. The collection company charges a fee of SAR 6,000.
6. The collection company charges VAT of SAR 900 to the financial services provider, Debt Financing Company, and remits it to the Authority in its VAT return.
7. The financial services company, Debt Financing Company, collects the debt amount of SAR 425,000 from the industrial company. This is not considered a supply (outside the scope of VAT).

The commission or fee charged by a third party who is not the owner of the debt in consideration for collecting the debt constitutes a taxable supply of services subject to VAT at the Standard Rate. This applies to any fees charged by the collector under a receivables sale agreement with recourse to the seller, as the collector does not obtain ownership of the debt nor assume the risk of non-payment.

Typically, the debt owner assigns the debt to the collector to enable the collection of the outstanding amounts. The assignment of the debt itself is not considered a supply for VAT purposes.



Transactions are classified for VAT purposes as follows:

1. Gulf Machines Company sells and delivers equipment to the customer, Al Barakah Factory, in consideration for SAR 525,000, of which SAR 100,000 is paid upon delivery. Accordingly, the remaining amount (SAR 503,750) constitutes a debt due from the customer to the supplier. This amount comprises SAR 425,000 representing the value of the goods sold, and SAR 78,750 representing VAT on the goods (15% of SAR 525,000).

The tax invoice will include the following:

Invoice No. 1000001	SAR
Supply of equipment	525,000
VAT at 15%	78,750
Total	603,750
Deposit received	100,000
Outstanding Balance	503,750

2. Gulf Machines Company sells the debt amount (SAR 425,000) for SAR 400,000 to a financial services company. The sale of the debt is not considered a supply, but rather a transfer of a capital asset (outside the scope of VAT).
3. The financial services company appoints a collection company to collect the debt. The collection company charges a fee of SAR 6,000 (plus VAT of SAR 900) for its services.

The tax invoice will include the following:

Invoice No.: 100001 Tax Registration No. (TRN): 22255544499 Customer: Financial Services Company	SAR
Collection services	6,000
VAT at 15%	900
Total	6,900



4.2.9 Islamic Finance Products

Islamic finance products are provided under Shariah-compliant contracts and, in terms of economic objective, resemble conventional financial products. However, they achieve their substantive objectives through alternative mechanisms to ensure compliance with Islamic law. For example, instead of charging interest, the Islamic finance provider earns a profit margin - often through the purchase and resale of commodities - on the financed portion of the product.

The same VAT treatment applies to Shariah-compliant finance products as applies to equivalent conventional financial products with the same economic outcome⁽²²⁾. Accordingly, the implicit profit margin included within any fees or instalments payable under an Islamic finance product may be treated as an exempt supply of financial services for VAT purposes, even if embedded within an explicit fee or commission.

However, fees relating to the provision of an underlying good or service to the customer, or administrative fees, remain subject to VAT.

Appendix 1 provides further details on selected Islamic finance products and their indicative VAT treatment.

Sale of Goods as Part of Islamic Finance Products

The transfer of ownership of goods sold as part of an Islamic finance product (Shariah-compliant product) may either result in the customer acquiring full ownership of the goods; or be a temporary transfer solely to ensure Shariah compliance.

(22). Article 29(3), Financial Services, Implementing Regulations.



Example (11):

An Islamic bank enters into a Murabaha/Tawarruq agreement whereby it purchases a specified quantity of metals from a supplier for SAR 20,000 and sells them to Mohammed, the financing recipient, for SAR 23,000, incorporating an implicit profit margin of SAR 3,000 payable over twelve monthly instalments. The financier arranges for the supplier to repurchase the goods from Mohammed for SAR 20,000, with the proceeds deposited into Mohammed's account. In this case, the transfer of ownership of the goods is not intended to result in permanent possession by the customer and, therefore, is not considered a supply of goods for VAT purposes. Accordingly, the monthly instalments (representing the SAR 3,000 profit margin) payable by Mohammed to the finance provider constitute consideration for an exempt supply of financial services.

Leasing Contracts

A leasing contract results in the lessee acquiring an asset through financing provided by a bank or finance company via the purchase of goods and subsequent resale.

The specific contractual terms and conditions in leasing contracts, particularly when the bank or finance company acts in its own name to acquire the asset, are critical in determining the VAT treatment of the leasing contract. It should be noted that supplies of real estate have been exempt from VAT since 4th October 2020 and are subject to the Real Estate Transaction Tax from that date; please refer to the relevant Guideline for Real Estate Transaction Tax for details.

1. Purchase Contracts in the Name of the Bank or Finance Company

Under leasing contracts where goods are transferred from the original seller to the bank/finance company, which contracts in its own name, and then separately transferred to the customer, the bank or finance company purchases the asset in its own name. The supplier (third party) will charge and collect VAT from the bank or finance company. VAT on the supply of the asset under the leasing contract becomes due on the date of transfer of ownership to the purchaser, and a tax invoice must be issued for this supply.



In general, the bank or finance company will collect the asset's value from the end customer through monthly instalments, consisting of a principal element (sale of the asset) and a finance element. The subsequent supply of the asset (from the financier to the end customer), which constitutes the principal element of the leasing contract, is treated as a taxable supply of goods, and the VAT paid by the bank/finance company to the original supplier on the purchase of the asset is fully deductible as input VAT.

When supplying the asset from the bank to the end customer, the bank or finance company must charge VAT on the principal element (supply of the asset), with the tax becoming due on the date of transfer of ownership to the end customer. The finance element is exempt from VAT if it comprises interest or an implicit margin. The bank or finance company must accurately identify the principal and finance elements and apply the applicable VAT treatment to each component of the instalments, declaring VAT on the principal element.

The VAT treatment requirements and issuance of tax invoices described above follow the provisions in Section 4.2.6 (Asset Financing).

It should be noted that supplies of real estate are exempt from VAT and subject to the Real Estate Transaction Tax; please refer to the relevant Guideline for Real Estate Transaction Tax.

Example (11):

Walid enters into an Ijarah contract to purchase a car with Bank (A), under which ownership of the car will be transferred to him at the end of the contract. The use of the car is made available to Walid at the start of the contract. Walid contracts directly with the bank only, with no contractual relationship with the original car seller (the dealership).

Under this contract, the Saudi bank will make two VAT-relevant supplies:

- **First:** Supply of the Asset (the car) - this is the principal element, treated as a supply of goods subject to VAT.
- **Second:** Provision of Financing - the finance element. Under Ijarah contracts, the amounts relating to the finance element, which represent the implicit margin earned by the bank from the Ijarah product, are exempt from VAT.



2. Purchase Contracts in the Name of the Customer (End Beneficiary)

Under an Ijarah contract:

- If the identities of the supplier and the end customer are known in advance,
- If the ownership and possession of the goods are transferred directly from the supplier to the end customer, and
- If the ownership is transferred to the bank/finance company without giving it the right to dispose of the asset as owner, then, for VAT purposes, this supply is treated as a direct supply from the original supplier of the goods to the finance recipient. The bank does not act in its own name to make the supply on behalf of the customer. VAT treatment of payments under such contracts is as follows:
 - a. Supply of the principal goods from the supplier to the end customer - subject to VAT.
 - b. Administrative fees charged by the bank - these may be applied to the original supplier, the end customer, or both, and are subject to VAT. (Real estate supplies are exempt from VAT and subject to Real Estate Transaction Tax; refer to the relevant Guideline.)
 - c. Supply of financing (implicit margin on financed goods repaid to the bank) - exempt from VAT.



	Purchase contracts in the name of the bank/financing company	Purchase contracts in the name of the client
Supply of the asset	1. Supply from the supplier to the bank/financing company (subject to standard VAT) 2. Supply from the bank/financing company to the client (subject to standard VAT)	Supply from the bank/financing company to the client (subject to standard VAT)
Supply of financing	Exempt from VAT	Exempt from VAT
Input VAT deduction	The bank has input VAT deduction	No input VAT
Administrative fees imposed by the bank		May be imposed on the client, the supplier, or both (subject to Standard VAT)

Annex 1 provides a detailed explanation of Islamic finance products.

4.3 Amounts Falling Outside the Scope of VAT

VAT is not imposed on amounts received by a financial services provider that are not connected to a supply made by that provider.

4.1.1. Compensation

Amounts paid as compensation for damages or penalties that are not connected to any supply made by the financial services provider fall outside the scope of VAT.

Annex 1 includes several examples of qualifying penalties.



4.1.2. Third-Party Costs Classified as Expenses

In certain cases, the financial services provider collects payment from the customer in respect of a supply or cost directly incurred by a third party. Where the financial services provider acts in the name of the customer - and does not incur any cost on its own behalf - such charges may be passed on or recharged without the addition of VAT. In such case, the financial services provider must not treat the cost as an expense incurred by it nor deduct it as input tax.

This may also include fees imposed by government entities, such as fees of the Saudi Central Bank, which are borne by the customer, where the bank collects payments on behalf of the Central Bank.

However, in cases where the financial services provider incurs costs in its own name - even if on behalf of the customer - such services must be regarded as supplies received by the provider and subsequently recharged to the customer. The tax treatment applicable to such costs incurred by the financial services provider shall be based on the tax treatment originally applicable to the underlying supply, which would generally be subject to VAT.

Example (12):

ABC Finance Company, one of the financing companies in the Kingdom of Saudi Arabia, enters into a finance lease contract with a customer, receiving the vehicle and the related financing. The customer defaults on payment and, in accordance with the terms of the contract, the vehicle is put up for auction. The bidder bears a fee of SAR 10,500, inclusive of VAT.

If the bidder charges ABC Finance Company the auction fees on behalf of the defaulting customer, such fees shall not be regarded as expenses incurred by ABC Finance Company in consideration for a supply and may not be included within its expenses. The Company must charge such expenses to the customer (SAR 10,500 inclusive of tax). As the auction fees do not constitute consideration for a supply made by ABC Finance Company, the Company may not apply VAT to the auction fees.



If ABC Finance Company enters into a contract with the bidder on behalf of the defaulting customer but in its own name, it shall be treated as the recipient of the service for VAT purposes (and the amount cannot be charged to the customer as a disbursement). The Company may recover the VAT paid on the auction fees to the bidder and apply VAT in the amount of SAR 1,500 on the supply of SAR 10,000 to the customer. In both cases, the same total amount shall be applied to the defaulting customer. The tax invoice issued by ABC Finance Company to the bidder shall include the following:

Bidder fee	SAR 10,000
15% VAT	SAR 1,500
Total due	SAR 11,500

4.4 Other Investments - Investment Funds

Investment funds carry out their activities using funds invested by the unit holders of the fund. Investment funds do not have a separate legal personality under Saudi law; however, they may be regarded as a person capable of making and receiving supplies for VAT purposes.

A public fund may have legal personality where it has the capacity to enter into and be bound by contracts in its own name and in its capacity as an independent person (or where another person, such as the fund manager, acts on its behalf).

In such cases, the fund may be a supplier or a customer in respect of specific supplies, as permitted under the fund's terms and conditions and the Investment Funds Regulations. Where the fund is required or eligible to register for VAT, it must register separately and in its own name for VAT purposes in the Kingdom. The fund manager or any other entity, such as a third party, may undertake such registration on behalf of the fund.

The fund manager conducts an independent economic activity in relation to the funds it manages and receives fees in consideration for its management services. The fund manager must declare VAT and deduct input tax based on its own activities. Accordingly, it may not fulfil its tax obligations relating to the funds and supplies of the funds it manages through its own tax return.



5. Insurance

Insurance is a contract under which an insurance company provides coverage to the policyholder against events whose occurrence in the future is uncertain. When such uncertain event occurs, the beneficiary under the insurance policy may submit a claim against the insurance company, and the insured must pay an insurance premium to the insurance company.

Pursuant to the insurance contract, the policyholder may be required to bear and pay a specified amount (deductible) before the insurance company settles any claim. The policyholder may be required to pay the deductible for each claim or otherwise as specified in the contract. Generally, the insurance premium decreases as the deductible increases. The deductible does not constitute consideration for a supply made by the insurance company; accordingly, the deductible is not relevant for VAT purposes.

All insurance contracts (other than life insurance) provided in the Kingdom and all insurance products are, in principle, subject to VAT at the Standard Rate. This includes all products determined by the Saudi Central Bank relating to general insurance or health insurance, as well as any corresponding reinsurance services, insurance brokerage services, and other insurance-related services.

Further information on insurance contracts in the Kingdom is provided in Section 7 of this Guideline relating to the place of supply.

Reference should also be made to the Guideline on the Application of VAT to Insurance and Reinsurance Services.



5.1 Life Insurance

The tax exemption applies to supplies of life insurance contracts. The Implementing Regulations of the VAT Law define a life insurance contract as follows:

“Any conventional insurance contract, takaful contract, or any Islamic insurance provided by a licensed provider in the Kingdom of Saudi Arabia, which results in the payment of a conditional amount upon death or upon the occurrence of a life-affecting event, or any similar contract provided by a non-resident supplier.”⁽²³⁾

For VAT purposes, all products classified and licensed by the Saudi Central Bank under the category of savings and life insurance shall be treated as life insurance for VAT purposes. This includes both the savings element and the protection element relating to that insurance policy.

Family takaful products provided in the Kingdom of Saudi Arabia are considered equivalent to life insurance products and are therefore eligible for VAT exemption.

5.2 Reinsurance

Insurance companies may reinsure their portfolios (partially) by seeking coverage for the insurance policies they have issued from other insurance companies that provide reinsurance services. The reinsurer charges a subscription fee to provide coverage for the policies issued by the insurance company (or part thereof) and pays an agreed amount to the insured insurance company in the event of the occurrence of an insured event.

Reinsurance of a life insurance contract shall be exempt from VAT where its place of supply is in the Kingdom in accordance with the place of supply provisions. Reinsurance commission relating to life insurance contracts is subject to VAT; however, a taxable reinsurer in the Kingdom may not deduct the VAT paid in this regard, as it relates to an exempt supply.

Reference should also be made to the Guideline on the Application of VAT to Insurance and Reinsurance Services.

(23). Article 29(7) and Article 8, Financial Services, Implementing Regulations.



5.3 Insurance Brokerage

An insurance broker acts as an intermediary between the insurance company and the policyholder. The insurance intermediary works to obtain the necessary coverage to meet the customer's requirements and assists the insured in submitting claims when required. Insurance brokers charge a commission or fee to the insured in consideration for providing such services. Such commissions or fees constitute taxable supplies for VAT purposes, regardless of whether they relate to general insurance, health insurance, or life insurance.

5.4 Settlement of Claims

Insurance claims may be settled by way of cash payment or by the insurance company bearing the costs of medical treatment or property repairs to restore them to their original condition. Where the insurance company pays the value of the treatment or repair to the insured, this shall not be regarded as a supply made by the insurance company for VAT purposes. No tax liability arises in respect of the amount received.

Example (13):

Al Noor Company is a company resident in the Kingdom (the customer). Al Noor Company holds a property insurance policy issued by Al Tahaluf Insurance Company, which is resident in the Kingdom. Several windows of the customer's office were damaged due to a storm, and the customer engaged a window repairer to install new windows. The claim submitted by Al Noor Company to the insurance company for reimbursement of the window repair costs does not constitute a supply.

In general, the value of insurance contracts concluded with individuals or non-taxable persons is calculated such that amounts paid under the policy by insurance companies are inclusive of VAT. Conversely, contracts concluded with taxable persons registered for VAT purposes are calculated such that payments under the policies by insurance companies are exclusive of VAT, due to the policyholders' ability to deduct the tax incurred.



5.4.1 Costs of Other Parties

As a general rule, a third party (such as persons carrying out repairs covered under an insurance contract) provides services directly to the insured party. Accordingly, such third party may claim payment directly from the insurance company.

If the insured is a taxable person and receives an invoice from the third party issued in its name, the value of that invoice (the claim amount) shall be paid to the third party, exclusive of VAT, as the insured may deduct the VAT charged by the third party.

The settlement of medical insurance claims is discussed in detail in the Guideline on Healthcare Services.

Example (14):

A company owns industrial equipment that has broken down and requires urgent repair to allow the factory to resume operations. The repair costs amount to SAR 400,000 (exclusive of VAT) and are fully covered by a general insurance policy with Al Tahaluf Insurance Company. A company carries out the repairs and issues its invoice to the manufacturing company in the amount of SAR 460,000, inclusive of VAT. The manufacturing company, as the recipient of the service, pays the VAT amount and forwards the invoice to Al Tahaluf Insurance Company for payment of the repair costs, exclusive of VAT, directly to the repair service provider.

- a. The tax invoice issued by the repair service provider to the manufacturing company shall include the following:

Repair expenses	SAR 400,000
15% VAT	SAR 60,000
Total due	SAR 460,000

If a third-party contracts with the insurance company and provides its services directly to it, the insurance company shall pay the VAT charged by the supplier providing the service, and the insurance company may deduct the VAT paid on that service. In such cases, it must be clear that the insurance company is the recipient of the service.



5.4.2 Input Tax Related to Cash Settlement of Claims

Insurance companies may not claim a deduction of input tax associated with cash claim payments due to the insured. Input tax may only be deducted where it is incurred by the insurance company on supplies made to it.

Example (15):

Omar (a natural person not registered for VAT purposes in the Kingdom) has a product covered by an insurance policy issued by a Saudi insurance company. A defect was identified in the insured product, and the customer requested a repair company to replace the product. The repair company charged VAT at 15% on the value of the supply. The natural person claims the monetary amount inclusive of VAT from QRS Insurance Co. QRS Insurance Co cannot deduct input VAT charged by Repair Co

Reference should be made to the Guideline on the Application of VAT to Insurance and Reinsurance Services.

6. Single Supply or Multiple Supplies

The supply of financial services generally includes the provision of 2 or more separate elements.

To determine the correct application of VAT in such cases, it must be established whether the financial service provided, comprising 2 or more elements, constitutes a single supply or multiple supplies.

Multiple supplies typically arise in cases where a bundle of different and distinct services is provided.

In general, where the customer has the option to purchase multiple services that are separately detailed in invoices, the appropriate tax treatment must be applied to each supply individually.



The VAT provisions relating to financial services clearly distinguish between consideration received as an explicit fee, commission, or discount (i.e. subject to the Standard Rate), and consideration received because of providing financial services in the form of an implicit margin (i.e., exempt). Accordingly, where an explicit fee is charged, VAT shall be applied at the Standard Rate, as it is presumed that a taxable supply of services has been made.

Example (16):

A foreign exchange provider charges a commission of 2% for converting SAR 2,000 into euros. It also realizes a profit margin by offering an exchange rate higher than the rate at which the currency provider acquires the currency.

The commission charged in the amount of SAR 40 is an explicit commission and is, therefore, subject to VAT in the amount of SAR 6. The profit margin realized as a result of the difference in exchange rates constitutes an implicit margin and is therefore exempt from VAT. Such commission shall be charged separately to the customer as an explicit fee, regardless of the rate offered by the foreign exchange provider.

In cases where multiple supplies are made:

- If the different supplies are subject to the same tax treatment, VAT shall be calculated on the full value of the supplies.
- If the different supplies are subject to different tax treatments, the value of each supply must be determined appropriately, and VAT shall be applied to each supply separately. Generally, this shall constitute the consideration payable by the customer, provided that it accurately reflects the relative value of each of the goods and services supplied.

The allocation of consideration among different supplies must be based on objective indicators reflecting the relative market value of each element of the supply. The Authority may, where there are indications that the allocation method does not reflect commercial reality, reject such method and reallocate the consideration for VAT calculation purposes.



Where single supplies are made, the entire supply must be subject to the same tax treatment (i.e., subject to the Standard Rate, the Zero Rate, or exempt).

The Authority considers that a supply should be classified as a separate supply in two main cases:

- Where the supply consists of multiple elements, but it is determined that one element constitutes the principal supply while the other elements constitute ancillary or supporting supplies to the principal supply.
- Where the supply consists of multiple elements that are closely interrelated such that they are considered a single supply, and the division of elements into separate supplies is merely formal.

A key factor in determining whether elements should be regarded as a single supply is whether the customer intends to receive a single supply or intends to receive two or more separate supplies. The acquisition of different elements separately from separate suppliers, or the ability to acquire them separately, may be an indicator that multiple supplies exist.

Although contractual terms (i.e., elements of the supply listed separately) and invoicing arrangements (i.e., consideration for each separate element) may assist in determining the tax treatment, they are not decisive in all cases, as contracts can be structured in a particular way to achieve the desired tax treatment.



7. Place of Supply for Financial Services

The rules relating to the place of supply determine the jurisdiction entitled to apply VAT to the supply of financial services. Where VAT is chargeable (i.e., the supply is not exempt), these concepts also determine the person responsible for reporting VAT.

7.1 Place of Residence of the Supplier and the Customer

In many cases, the place of supply rules is determined with reference to the place of residence of the supplier and the customer. The term "resident" includes a company resident established under the laws of the Kingdom or whose place of effective management is in the Kingdom. Where a company or any other legal person is established outside the Kingdom and has a place of business or any other form of permanent establishment in the Kingdom, that company shall be considered a resident in the Kingdom.⁽²⁴⁾

7.1.1 Dual Residence

A company or legal person may have more than one place of business or a place different from its place of incorporation, and such company may therefore be treated as a resident in multiple countries for VAT purposes. For example, a legal person may have multiple branches in different countries. In such cases, for the purpose of determining the place of supply, the location most closely connected to the supply of goods or services shall be regarded as the place of residence of the legal person.⁽²⁵⁾

Example (17):

Union Bank is a bank established in the United Arab Emirates and also has a branch in Riyadh. A software provider enters into a contract with the bank to provide an electronic guarantee specific to the branch's operations. In this case, the bank branch located in the Kingdom is the location most closely connected to the recipient of the services and shall therefore be regarded as the customer for VAT purposes.

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

(25). Article 21(4), Taxable Supplier and Customer, Implementing Regulations.



7.2 Supply of Financial Services from Business to Business

As a general rule, the place of residence of the taxable customer shall be regarded as the place of supply of financial services provided to a person registered in the VAT system in any of the Gulf Cooperation Council (GCC) countries. The table below illustrates how VAT is applied in these general cases.

Supplier > Customer (Business)	Country Where Supply is Made	Reporting Obligation in the Kingdom (if the supply is subject to VAT)
Supplier (business) registered in the VAT system in the Kingdom > Recipient (business) not registered in the VAT system in the Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	Supplier charges VAT to the customer
Supplier (business) registered in the VAT system in the UAE > Recipient (business) not registered in the VAT system in the Kingdom of Saudi Arabia	United Arab Emirates	Outside the scope of VAT applicable in the Kingdom
Supplier (business) registered in the VAT system in the UAE > Recipient (business) registered in the VAT system in the Kingdom	Kingdom of Saudi Arabia	The recipient must account for VAT using the reverse charge mechanism and declare it
Recipient (business) not resident in any GCC country > Recipient (business) registered in the VAT system in the Kingdom	Kingdom of Saudi Arabia	The recipient must account for VAT using the reverse charge mechanism

Where services are provided by a resident supplier, the supplier must charge VAT at the rate applicable to the nature of the service (or apply the tax exemption in the case of exempt financial services).

Where services are provided in the Kingdom by a non-resident supplier to a recipient registered in the VAT system, the recipient shall be responsible for accounting for VAT at the applicable rate upon receipt of the services, using the reverse charge mechanism. This does not apply where the financial services received by the registered customer are exempt from VAT.



There may be exceptions to this general rule in limited cases, such as services related to real estate, as set out in Section 7.4 below.

A supplier registered in the VAT system in the Kingdom must apply VAT as appropriate on all supplies made in the Kingdom of Saudi Arabia. There are limited exceptions to this general rule, such as services related to real estate as noted in Section 7.4 below. Zero-Rated VAT may also apply to the supply of services to recipients not resident in GCC countries (see Section 7.5 below).

7.3 Supply of Financial Services from Business to Customer

The place of residence of the supplier shall be regarded as the place of supply of financial services provided to all other customers (i.e., persons not carrying on business or any person not registered in the VAT system in any GCC country).

Supplier > Customer	Country Where Supply is Made	Reporting Obligation in the Kingdom (if VAT is applicable)
Supplier (business) registered in the VAT system in the Kingdom > Individual resident in the Kingdom not registered for VAT	Kingdom of Saudi Arabia	Supplier charges VAT to the customer
Supplier (business) registered in the VAT system in the Kingdom > Customer not resident in a GCC country	Kingdom of Saudi Arabia	Supplier charges VAT to the customer
Supplier registered in the United Arab Emirates > Individual in the Kingdom	United Arab Emirates	No VAT reporting obligation in the Kingdom
Non-resident supplier in a GCC country > Individual resident in the Kingdom not registered for VAT	Outside the Kingdom of Saudi Arabia	No VAT reporting obligation in the Kingdom



7.4 Services Related to Real Estate

All services related to real estate are subject to VAT in the country where the property is located. "Services related to real estate" are defined as those services that affect the area of the property or are connected to a specific portion of the property or a specific location of immovable property.⁽²⁶⁾

In general, services related to real estate are services connected to a specific property such that the property forms an essential part of the service. For example, the supply of finishing and decoration works for buildings constitutes a supply of services related to real estate.

Where insurance is provided for a specific area of a property, such insurance constitutes a supply of services related to real estate, and VAT shall be chargeable on these services based on the location of the property.

(It should be noted that real estate supplies were exempt from VAT as of 4th October 2020 and have been subject to the Real Estate Transaction Tax since that date. Please refer to the relevant Guideline for Real Estate Transaction Tax.)

Services that "affect" the property are those designed to modify a specific area of the property, either legally or physically. Generally, this does not apply to most financial services, even if they relate to a specific part of a property.

7.5 Supply of Financial Services to Customers Outside the GCC Territory

VAT at the Zero Rate shall apply to supplies of financial services not related to goods where such services are supplied to a person not resident in a GCC country who will benefit from the service outside the GCC territory. The Zero Rate also applies to supplies of financial services that are exempt from VAT within the Kingdom of Saudi Arabia, meaning that VAT at the Zero Rate is applied to these services when supplied to non-residents of the GCC.

There is an important distinction between Zero-Rated supplies and exempt supplies. Although the customer does not bear VAT in either case, input VAT related in respect of such supplies (outputs) may only be deducted by a taxable supplier providing Zero-Rated supplies.

(26). Article 23(2), Services Related to Real Estate, Implementing Regulations



To apply the Zero Rate, the supplier must ensure that the following conditions are met:

- a. The place of supply of the service shall not be located in any Member State in accordance with the special cases listed in Articles 17 to 21 of the Convention. This does not include services supplied separately from services whose place of supply is located in any Member State in accordance with any of those special cases, and which may be directly or indirectly related to them.⁽²⁷⁾
- b. The customer receiving the services must not be a resident of any member state.
- c. The customer or any person associated with the customer must not benefit from the same services directly supplied while any of them are located in a member state, and the associated person may not recover the input tax in full.
- d. The services should not be performed in a tangible way on tangible goods located in a member state during the supply process..
- e. The Zero Rate may apply to supplies related to VAT refunds for tourists where the service is provided by an Authority-licensed service provider in accordance with Article 70 of the Implementing Regulations. In this case, it is not required that the customer or the goods be located outside the Kingdom, provided that the service relates to the tourist VAT refund.⁽²⁸⁾

Example (18):

“Red Tax” is licensed as a tourist VAT refund service provider within the Kingdom. The company provides digital systems and in-store procedures in Jeddah to enable tourists to reclaim VAT on their purchases upon departure. Although the service is provided within the Kingdom and relates to goods located therein, it is considered Zero-Rated because it concerns the tourist VAT refund and is provided by a licensed entity.

(27). Article 33(a) Supplies to Non-Residents of the GCC - Implementing Regulations, and Articles 17-21, Place of Supply, Special Cases, Unified VAT Agreement.

(28). Paragraph 3, Article 33 of the Implementing Regulations



Example (19):

An individual resident in Egypt, during a business trip to Riyadh, visits a currency exchange bureau and converts Egyptian pounds into Saudi riyals. The currency exchange service provider charges the non-resident customer a fee. Since the non-resident customer benefited from the currency exchange service in the Kingdom while present in the kingdom, VAT must be applied at the standard rate to the commission charged by the service provider.

8. Input VAT Deduction

8.1. General Conditions

For VAT purposes, a person may deduct input VAT on goods and services that they purchase or receive in the course of carrying out their economic activity. Input VAT may be deducted in respect of any of the following:

- VAT on inputs of a person registered for VAT charged by a VAT-registered supplier in the Kingdom.
- VAT on inputs of a person registered for VAT that is self-assessed under the reverse charge mechanism.
- VAT on imports by a person registered for VAT paid to the Zakat, Tax and Customs Authority (ZATCA) upon importation of goods into the Kingdom.

Regarding the economic activity requirement, the Implementing Regulations of the law provide that a taxable person may deduct input VAT charged on goods and services supplied to them while carrying out their economic activity, to the extent that it enables them to make the following supplies:⁽²⁹⁾

- a. Taxable supplies, including Zero-Rated supplies.
- b. Internal supplies.
- c. Supplies that would have been taxable if they had been made in the Kingdom.

Accordingly, input VAT deduction applies only to goods and services to the extent that the recipient receives the supply during their economic activity.

(28). Article 49(1), Input VAT Deduction, Implementing Regulations



Generally, input VAT relating to the exempt activities of a taxable person may not be deducted. In addition, input VAT may not be deducted on any costs not incurred as part of an economic activity (including certain restricted forms of expenditure such as entertainment or vehicles) or any other costs relating to VAT-exempt supplies.

Input VAT constitutes a credit balance to be reported in the VAT return submitted by the taxable person to the Authority. It is then deducted from the VAT charged on the supplies made by that person during the same tax period. Input VAT may be deducted only if the taxable person holds a tax invoice (or any alternative document evidencing the amount of input VAT paid or payable, if agreed with the Authority).

8.2 Supplies within a Group of Entities / Companies

The supply of taxable goods or services between related companies established in the Kingdom will be subject to VAT, as each entity will be treated as a separate taxable person.

Registered members of a tax group are not required to account for supplies made between members of the same tax group, as the tax group will be treated as a single taxable person for VAT purposes.

A separate guideline contains more information regarding tax groups. VAT is not applied to supplies made for consideration between branches or divisions of the same legal entity.

8.3 Supplies from Foreign Suppliers/Foreign Entities

Financial services companies frequently incur costs from foreign service providers (including corporate groups). When a person registered for VAT in the Kingdom receives services from a non-resident service provider, the place of supply of that service is the Kingdom. This applies to suppliers resident in GCC member states as well as non-GCC non-resident suppliers.



The client (resident in the Kingdom) must determine whether they are required to self-assess VAT on the services received. This determination is made in accordance with the VAT system applicable in the Kingdom, the Unified VAT Agreement, and the Implementing Regulations. If a supply is exempt from VAT in the Kingdom, VAT is not accounted for under the reverse charge mechanism or otherwise. For taxable supplies, VAT must be self-assessed on the value of the services received.

A detailed explanation of the reverse charge mechanism can be found in the VAT general Guideline and the tax circular on the Application of the Reverse Charge Mechanism (RCM) available on the website [zatca.gov.sa](https://www.zatca.gov.sa).

However, services provided by foreign branches of the same legal entity that is established in the Kingdom (i.e., branches of Saudi companies abroad or branches of foreign companies in the Kingdom registered as a branch) are, in principle, not considered supplies of services and therefore do not require self-assessment of VAT. This is because the different branches of the same legal entity, even if located in different countries, are part of the same entity and cannot supply services to themselves. This principle does not apply to independent entities owned by another entity, regardless of the ownership percentage.

Example (20):

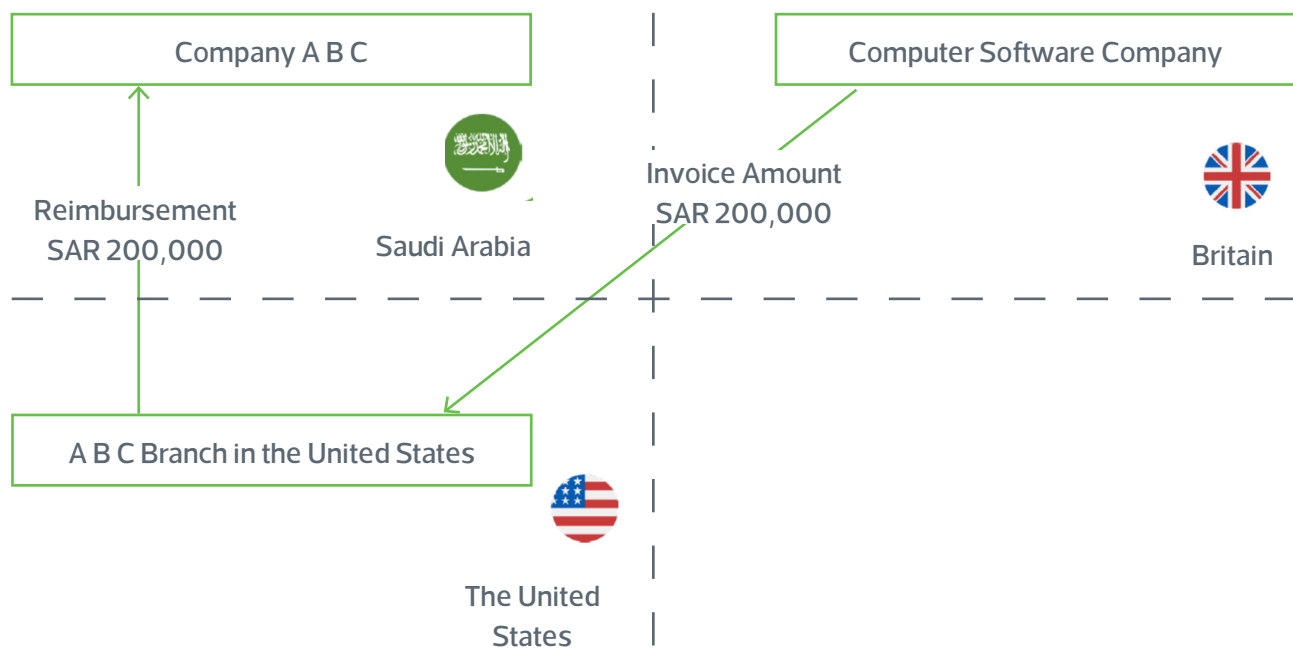
The headquarters of Company ABC is located in the Kingdom, and it has a branch in the United Arab Emirates. The UAE branch develops marketing materials across the GCC and receives a compensatory fee from the headquarters in the Kingdom. This consideration is not regarded as a supply for VAT purposes because it occurs within the same legal entity.

An exception to this principle arises when the foreign branch receives services from a non-resident supplier, which will later be used in the Kingdom by a branch established in the Kingdom without any substantial modification or addition by the foreign branch to the original supply. In such cases, the foreign branch contracts with the service provider, but the branch established in the Kingdom is the actual beneficiary of the service. Therefore, the branch in the Kingdom is considered the recipient of the supply and is required to self-assess VAT on the value of that supply (reverse charge).



Example (21):

The headquarters of Company (A B C) is located in the Kingdom, and it has a branch in the United States of America. The US branch enters into a contract with a software supplier resident in the United Kingdom to use it at the headquarters in the Kingdom without making any modifications to the software in the United States before supplying it to the headquarters in the Kingdom. The software supplier issues an invoice for SAR 200,000 to the US branch of Company (A B C). The US branch then recharges these costs to the headquarters in the Kingdom. The headquarters in the Kingdom is considered to be receiving the service directly from the software supplier, and therefore it is required to account for VAT on the value of this supply (i.e., SAR 200,000) and declare it in its own VAT return.





8.4 Outsourcing

In the financial services sector, it is common to outsource services, particularly with respect to support and management activities. Suppliers performing these activities typically charge a fixed fee for the services provided, or a salary plus a commission for preparatory services. VAT at the Standard Rate applies to any fees related to the services provided (including commissions for preparatory services or similar services). Depending on how the services executed by outsourced providers are used by the financial service provider, the input VAT incurred may not be fully recoverable.

If the financial services company performs these activities using its own employees, VAT is not applied to employee costs, as the employees' work is not considered an economic activity and VAT is not due on employee salaries.⁽³⁰⁾

(30). Article 6(9), Registration provisions applicable in certain cases, Implementing Regulations.



Example (22):

Company (A B C) is a bank resident in the Kingdom. Due to a reorganization in the administrative department, a contract was signed with the Isnad Saudi Company to perform certain support activities. Isnad Company receives a fee of SAR 1,000,000 for performing the support work. Isnad Company will apply VAT at standard rate on its invoice for the services.

In cases where the supplier provides labor and employees to the client, and the assigned employee is directed by the client and acts similarly to an employee of the client, and the nature of the relationship between the client and the employee is effectively that of an employer to their employees, the service provider may treat the portion of the fee payable to the supplier, which is paid to the employee as salary or wages, as a direct cost rather than consideration for the supplier's service. Accordingly, VAT becomes due on the supplier's fees for providing the service.

To determine whether the relationship between the client and the employee supplied through labor supply and recruitment agencies or similar entities constitutes an employer-employee relationship, the ZATCA may consider several factors, including but not limited to the actual location where the employee performs the work (offices or sites under the client's management), whether the employee receives instructions directly from the client, whether the client is involved in hiring and assessing the employee's competence before employment, and the party responsible for evaluating the employee, among others.

Return to Example (28):

If Company (A B C) is the entity issuing directions to the assigned employees and treats them as if they were its own employees or in the same manner as its employees, Isnad Company can separate the salary expenses paid to the employee from its fees for providing the labor supply service. If the salaries paid to the assigned employees during the outsourcing period amount to SAR 900,000, these can be charged separately as expenses without applying VAT. Company (A B C) must apply VAT on any price difference, fees, or service fees (in this case, VAT is applied to the remaining amount of SAR 100,000).



Please refer to the details and criteria for these tax transactions in the Guideline on Employee Benefits. Outsourcing may therefore result in different tax treatments for financial service providers.

For more details on input VAT deduction, refer to Sections 8.5, 8.6, and 8.7.

8.5 Applying Input VAT Deduction on Financial Services

8.5.1 When Input VAT Can Be Deducted

Generally, input VAT can be deducted on a monthly or quarterly basis, depending on the periods in which goods and services are purchased, provided that the taxable person can demonstrate that these supplies relate to taxable transactions (current or future). A person is not required to make a subsequent supply to deduct input VAT as a credit.

Input VAT deduction is based on the intended use at the time of purchase.

Example (23):

Company (A B C), resident in the Kingdom, purchased a new computer from PC Company. PC Company issued an invoice for the computer (SAR 1,000) plus VAT at standard rate (SAR 150).

Company (A B C) purchased the computer for use in managing the rental of safe deposit boxes, which is considered a taxable activity. The computer will be used once the new software is operational, which may occur within a few months following the purchase date. Company (A B C) expects at the time of purchase that the computer will not be used for any other activities than those specified above. Accordingly, (A B C) may deduct the full amount of VAT in its tax return, and (A B C) must submit the invoice issued by PC Company related to the supply of the computer.



If a taxable person deducts input VAT on a supply received and has not fully paid the consideration within twelve months from the month following the month in which the supply occurred, the deductible input VAT must be adjusted by the amount of VAT attributable to the unpaid consideration at that date. The adjustment amount must be included in the tax return for the tax period in which the twelve-month period ended. This does not apply to the supply of goods under financing contracts, including financial leases, Murabaha, and Ijarah Muntahia Bittamleek, received from a taxable person licensed to carry out any of the aforementioned activities, where payment is made in periodic installments, provided that the contract or agreement remains valid, there is no legal dispute over the contract or agreement, the supplier has declared the full VAT amount due on the supply in the tax return for the relevant period, and the client holds a written certificate from the supplier to this effect.

8.5.2 Capital Assets

Capital assets are tangible and intangible assets that form part of business assets and are allocated for long-term use as a business tool or investment means⁽³¹⁾, owned for a long period for commercial investment purposes. Input VAT may be deducted in advance based on the intended use at the time of purchase.

It should be noted that real estate supplies are exempt from VAT and are subject to the Real Estate Transaction Tax. For more information, please refer to the Guideline for Real Estate Transaction Tax.

Taxable persons must monitor the use of movable capital assets for 6 years and make annual adjustments to the VAT pre-deduction if the actual use of the assets changes from deductible to non-deductible and vice versa.⁽³²⁾

For more information, please refer to the Capital Assets Guideline.

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

(32). Article 52, Capital Assets, Implementing Regulations.



8.6 Partial Deduction Related to Input VAT

Input VAT incurred by a taxable person relating to exempt activities, such as revenue earned from interest, may not be deducted. However, a person who makes both taxable and exempt supplies may deduct input VAT only in relation to the taxable supplies. (It should be noted that real estate supplies are exempt from VAT and are subject to the Real Estate Transaction Tax. For more information, please refer to the Guideline for Real Estate Transaction Tax.)

For taxable persons who have both exempt and taxable supplies, input VAT relating to the economic activity must be apportioned between taxable and exempt supplies to determine the deductible portion of input VAT⁽³³⁾:

Input VAT relates exclusively and directly to fully taxable supplies	Full deduction allowed
Input VAT relates exclusively and directly to non-deductible exempt supplies	No deduction allowed
For general expenses and input VAT that cannot be directly attributed to taxable supplies	Partial deduction based on allocation

General expenses/costs paid by the taxable person in respect of both taxable and exempt supplies must be apportioned to reflect whether those costs are correctly attributable to the taxable supplies provided by the taxable person.

(33). Article 51, Proportional Deduction of Input VAT, Implementing Regulations.



The partial deduction for the value of taxable supplies specified for a given year is calculated using the following fraction⁽³⁴⁾:

The value of taxable supplies made by the taxable person
(during the previous calendar year)

The total value of taxable supplies and exempt supplies made by the taxable person
(during the previous calendar year)

The above equation does not include the value of supplies for capital assets made by the taxable person, as calculating the value of capital supplies for the purpose of determining the proportional deduction does not correctly reflect the proportion of taxable supplies out of the total supplies made by the taxable person for input tax deduction purposes.

Regarding financial services, the value of tax-exempt interest or profit margins is generally included in the total value of supplies, but the value of securities on which the interest or profits were calculated is disregarded and not taken into account when calculating the value of supplies, as they are considered capital assets. This allows for a more accurate comparison of the value of exempt supplies to non-exempt supplies.

(34). Article 51 (3), Proportional Input Tax Deduction, Implementing Regulations.



Example (24):

Saudi Money Bank provides lending services with interest (tax-exempt service) and receives taxable fees for operating current accounts (taxable at the Standard Rate).

Its inputs and outputs during the year 2021 were as follows:

Sales/Outputs	Value (SAR)	VAT Imposed (SAR)	
Fees charged to customers	400,000	60,000	
Interest in loans (margin-based)	600,000	-	Exempt from tax
Issuing new loans	3,500,000	-	Outside the scope of VAT
Expenses / Inputs	Value	Input VAT	Input VAT deduction
Related to current accounts	150,000	22,500	22,500
Related to interest-bearing loans	60,000	9,000	-
General expenses - not directly related	200,000	30,000	Proportionally: 12,00

Saudi Money Bank can deduct input VAT directly related to taxable supplies. Regarding its general expenses, the value of taxable supplies must be added to the value of exempt supplies without including the value of issuing new loans (capital assets).

$$\text{Proportional recovery: } \frac{\text{Total taxable supplies}}{\text{Total taxable supplies plus exempt supplies}} = \frac{400,000}{1,000,000} = 40\%$$

The partial input VAT deductible for Company (A B C) on general expenses is:
 $30,000 \times 40\% = 12,000 \text{ SAR}$



8.7 Attempting an alternative method for proportional deduction

It may be possible to use alternative methods to calculate the partial deduction (only in relation to general expenses or expenses not related to any activity), using other cost factors instead of the supply values used in the default calculation method. A taxable person may submit a request to use an alternative formula in cases where the alternative calculation method more accurately reflects the use of inputs than the default method. ⁽³⁵⁾

To request the use of an alternative calculation method, a report must be submitted to the Authority specifying the following:

- The impact of the default revenue calculation method on VAT deduction in the applicant's current activities, and evidence that it does not accurately reflect the use of inputs
- The proposed alternative calculation method that uses alternative factors to allocate costs not directly attributed to any activity on a proportional basis
- A detailed explanation showing that the use of the alternative calculation method accurately reflects the use of inputs

The Authority may approve alternative deduction methods or mechanisms in cases it considers better reflect the actual use of inputs subject to VAT, and it will review the alternative method periodically as necessary. An alternative calculation method may only be used after receiving formal approval from the Authority, which will specify the time period during which the alternative method may be applied.

(35). Article 51 (8), Proportional input VAT deduction, Implementing Regulations



9. VAT Return

9.1 Supply Date

VAT on the supply of financial services is due on the date of supply, which is considered the date on which the service has been fully performed.⁽³⁶⁾ However, if a tax invoice is issued by the supplier before the service is performed, VAT becomes due earlier of the payment date or the invoice date.

If the recipient makes a deposit (advance payment) or any other amount to the supplier before sending or issuing an invoice, VAT becomes due in respect of this advance payment. Also, a security deposit paid to a notary or third party, which is held without being made available to the supplier, does not give rise to a VAT liability.

If the tax exemption does not apply to financial services and such services are treated as continuous supplies that require periodic installments, then each installment is considered a separate and successive supply. VAT is due on each supply on the installment due date or the actual payment date, whichever is earlier. It should be noted that the supply of goods (assets) under a finance, leasing, or similar agreement is treated as a single supply, and the VAT due date, if applicable, is the date the goods are placed in the possession of the customer, regardless of installment payments.

If no periodic installments are specified in the agreement (and separate invoices are issued instead of each supply), VAT becomes due on the invoice date or the actual payment date, whichever is earlier.

9.2 VAT Imposition

When a resident supplier makes taxable supplies, they are responsible for VAT registration (if required) and for charging VAT at the applicable rate. The registered supplier must issue a tax invoice for each taxable supply.

(36). Article 23 (1) & (2), Tax due date on the supply of goods and services, Unified VAT Agreement.



If services are supplied by a non-resident supplier to a resident and VAT-registered recipient in the Kingdom, the non-resident supplier does not charge VAT. Instead, the recipient is responsible for self-accounting the tax using the reverse charge mechanism and declaring VAT (at the applicable rate) through their VAT return.

Further information on this mechanism is provided in a separate guideline available on the website zatca.gov.sa.

For supplies subject to the standard VAT rate, VAT is calculated at 15% of the total supply value. In cases where the supplier receives an amount inclusive of VAT, VAT is included in the amount received (the tax is calculated as 15/115 of the amount received). Section 11 of this Guideline provides more information on supplies during the transitional period.

9.3 Invoice Issuance

The supplier must issue a tax invoice for each taxable supply made to another person registered for VAT purposes or to any legal person not subject to VAT, no later than fifteen days after the end of the month in which the supply was made.

Each taxable person must also issue a simplified tax invoice if the supply value is less than SAR 1,000. For supplies made by taxable persons to natural persons not subject to VAT or any other person not mentioned in the previous paragraph, the taxable supplier must issue an invoice in the same format as the simplified invoice. In both cases, the invoice must be issued no later than fifteen days after the end of the month in which the supply was made.

The tax invoice must clearly include certain data and information, such as the invoice date, supplier's VAT registration number, taxable amount, applicable tax rate, and the VAT amount charged. If different rates are applied to different supplies, the value of each item must be specified separately, along with 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 the document contains all requirements for issuing a tax invoice and a simplified invoice as stated in the Implementing Regulations of the VAT law.



9.4 Submission of VAT Returns

Every person registered for VAT purposes, or a person authorized to act on their behalf, must submit a VAT return to the Authority for each monthly or quarterly tax period (as applicable).

The tax return is considered a self-assessment by the taxable person of the tax due for that period. Monthly tax periods are mandatory for taxable persons whose annual revenues exceed SAR 40 million, while the standard tax period for other taxable persons is three months.

The VAT return must be completed, and the net VAT payable must be settled no later than the last day of the month following the end of the tax period to which the VAT return relates.

9.5 Record Keeping

All VAT-registered persons must maintain proper tax records related to VAT calculation for audit purposes. This includes any documents used to determine the VAT due for each transaction and in the VAT return. In general, this includes:

- Issued and received tax invoices
- Accounting books and documents
- Contracts or agreements related to significant sales and purchase transactions
- Bank statements and other financial records
- Import, export, and shipping documents
- Other documents related to VAT calculation

Records can be kept in either paper or electronic form, provided that the conditions specified in the Implementing Regulations of the law are met.⁽³⁷⁾ These records must be made available to the Authority upon request. All records must be retained for at least the basic retention period of 6 years, with the minimum retention period extended to 11 years for invoices and records related to movable capital assets, and 15 years for invoices and records related to immovable capital assets.⁽³⁸⁾

(37). For more details, see Article 66 (3), Records, Implementing Regulations.

(38). Article 66, Records, Implementing Regulations of the law, and Article 52, Capital Assets, Implementing Regulations of the law.



9.6 Tax Obligations

Every taxable person must assess their tax liability and comply with the conditions and obligations related to VAT. This includes registering for VAT where applicable, accurately calculating the net tax payable, paying the tax on its due date, maintaining all necessary records, and cooperating with Authority personnel upon request.

If the person is unsure of their obligations, they should contact the Authority via the website zatca.gov.sa or other communication channels. They may also seek external advice from a qualified consultant. The following outlines the key tax obligations stipulated in the law and regulations.

9.7 VAT Registration Certificate

A resident taxpayer registered with the Authority in the VAT system must display the VAT registration certificate at their principal place of business and at all branches, including the online store, in a manner visible to the public. Failure to comply will subject the violator to the penalties stipulated in the Law.

9.8 Correcting Previous Errors

If a taxable person identifies an error or an incorrect amount in their submitted tax return, or fails to comply with any tax obligation, they must notify the Authority and correct the error by amending the tax return. For errors that result in a tax difference exceeding a net value of SAR 15,000, the taxable person must notify the Authority within 20 days of becoming aware of the error or incorrect amount. For minor errors resulting in a tax difference of less than SAR 15,000, the error may be corrected by including that amount - in excess - in the net tax due that must be reported in the tax return submitted to the authority for the tax period during which the error was discovered.⁽³⁹⁾

(39). Article 63, Correcting Errors, Implementing Regulations..



10. Penalties

The Authority may impose penalties or sanctions on taxpayers in relation to violations of the provisions and conditions of the VAT Law and its Implementing Regulations⁽⁴⁰⁾.

Non-Field Violations

Description of the Violation	Associated Penalty
Submission of incorrect documents with the intent to evade payment of the due tax or to pay an amount less than the due tax.	• Not less than the amount of the due tax. • Not exceeding 3 times the value of the goods or services.
Transporting goods from or to the Kingdom without payment of the due tax.	• Not less than the amount of the due tax. • Not exceeding 3 times the value of the goods or services.
Failure to register for VAT purposes within the specified registration period.	SAR 10,000.
Submission of an incorrect tax return, amendment of a tax return after submission, or submission of any document to the Authority relating to the due tax, resulting in an error in calculating the tax amount at less than the amount due.	25% of the difference between the calculated tax and the due tax. The Authority may increase the penalty rate up to a maximum of 50% or reduce it to 0%.
Failure to submit the tax return within the specified time.	5-25% of the tax for which the return should have been submitted.
Failure to pay VAT within the specified time.	5% of the due tax for each month or part thereof.
Collection of VAT without registration for tax purposes.	A penalty of up to SAR 100,000.

In the above cases, if the violation is repeated within 3 years from the date of issuance of the final decision regarding the penalty, the Authority may double the penalty in the event of recurrence of the violation.

(40). Chapter 16, Articles 41, 42, 43, 44, and 47: Tax Evasion and Penalties - VAT Law.



In the above cases, if the violation is repeated within 3 years from the date of issuance of the final decision regarding the penalty, the Authority may double the penalty in the event of recurrence of the violation.

The Authority determines the level of the penalty or sanction imposed on the taxable person, taking into consideration the conduct of the taxable person and their VAT compliance record, including the taxable person's fulfillment of the obligation to notify the Authority of any errors and cooperation with the Authority to correct such errors.

The penalty associated with the violation of "submission of an incorrect tax return, amendment of a tax return after submission, or submission of any document to the Authority relating to the due tax resulting in an error in calculating the tax amount at less than the amount due" shall be calculated as shown in the table above, in accordance with the following rules.

First: Increase of the Penalty

The Authority has the right to increase the penalty rate associated with the violation of "submission of an incorrect tax return, amendment of a tax return after submission, or submission of any document to the Authority relating to the due tax resulting in an error in calculating the tax amount at less than the amount due" by up to a maximum of 50% of the difference between the calculated tax and the due tax, if one or more aggravating factors apply, as follows:

1. The penalty shall be increased by 10% where the error in the return is associated with a case of tax evasion for which a decision has been issued by the Authority, in accordance with Article 39 of the VAT Law.
2. The penalty shall be increased by 10% where the taxable person's compliance record is classified as very poor.
3. The penalty shall be increased by 5% where the taxable person's compliance record is classified as poor.
4. The penalty shall be increased by 5% where the percentage of the difference between the calculated tax and the due tax, payable or refundable, relating to the total periods subject to amendment, exceeds 20% for returns relating to monthly tax periods, or exceeds 40% for returns relating to quarterly tax periods.



Second: Reduction of the Penalty

The Authority may reduce the penalty rate associated with the violation of "submission of an incorrect tax return, amendment of a tax return after submission, or submission of any document to the Authority relating to the due tax resulting in an error in calculating the tax amount at less than the amount due" down to 0%, where one or more mitigating factors apply, as follows:

1. The penalty shall be reduced by 5% where the taxable person's compliance record is classified as good.
2. The penalty shall be reduced by 5% where the percentage of the difference between the calculated tax and the due tax, payable or refundable, relating to the total periods subject to amendment, is less than 5% for returns relating to monthly tax periods, or less than 15% for returns relating to quarterly tax periods.
3. The penalty shall be reduced by 10% where the taxable person pays the amount of the difference between the calculated tax and the due tax payable within 30 days from the assessment decision issued by the Authority.
4. The penalty shall be reduced by 15% where the taxable person is classified as a micro-enterprise. For the purposes of these rules, a micro-enterprise is deemed to exist where the value of its annual taxable revenues does not exceed SAR 3,000,000 during the 12 months preceding the tax period subject to audit and assessment.
5. More than one mitigating factor shall not be combined in relation to the mitigating factors stated above, except for the factors relating to payment of the due tax set out in these rules.
6. As an exception to the provisions of this item (Second), the penalty rate shall not be reduced if the error in the return is associated with a case of tax evasion for which a decision has been issued by the Authority.



Third: Rules for Determining Taxable Person Compliance

The Authority determines the level of compliance of the taxable person based on the number of errors in their previous tax returns in relation to submitting returns by their due dates or paying the due tax by its due date, as follows.

1. The taxable person's compliance shall be deemed good where there are no violations during a period of 12 months.
2. The taxable person's compliance shall be deemed poor for a taxable person submitting monthly returns where more than 2 and up to 6 violations are committed during the last 12 months, and for a taxable person submitting quarterly returns where 1 or 2 violations are committed during the last 12 months.
3. The taxable person's compliance shall be deemed very poor for a taxable person submitting monthly returns where more than 6 violations are committed during the last 12 months, and for a taxable person submitting quarterly returns where more than 2 violations are committed during the last 12 months.

Fourth: No Penalty for Incorrect Tax Return in the Following Cases

1. Where the taxable person corrects the return in accordance with the provisions of Article 63 of the Implementing Regulations of the VAT Law, provided that such correction takes place before notification of the commencement of audit and inspection procedures by the Authority.
2. Where the difference between the calculated tax and the due tax is less than SAR 5,000.

Fifth

Where the taxable person corrects the return through the voluntary disclosure form after being notified of the commencement of audit and inspection procedures, and such correction exceeds 50% of the calculated and due tax differences resulting from the audit and assessment, the penalty shall be reduced to 10%. Where the taxable person pays the due tax payable within 30 days from the date of the assessment notification, the penalty shall be reduced to 0%.



Field Violations

All field violations commence, upon commission, with notifying the violator and providing awareness thereof, and granting an appropriate time period ranging from 30 to 60 days to rectify them, except for the violation relating to preventing or obstructing Authority employees from performing their duties and tasks. In such case, the violator shall be granted a period not exceeding 10 days from the date of imposition of the last penalty to rectify the violation, which shall be imposed consecutively in the event of repeated commission by the violator.

For the classification table of general VAT violations and the violations and penalties specifically related to the provisions of the Electronic Invoicing Regulations, reference shall be made to the Guideline on the Classification of General VAT Violations.

11. Transitional Provisions Related to Financial Services

VAT (VAT) is, in principle, applied to all transactions carried out as part of an economic activity from 1st January 2018G, based on the supply date and the rules outlined below. The purpose of applying the transitional provisions is to ensure the fair application of VAT on all transactions occurring during the transitional phase. The following are four rules related to the financial services sector, in addition to the rules concerning the transitional application linked to the increase of the standard VAT rate to 15%.

For more detailed information on transitional provisions, please refer to the Guideline available on the Authority's website: zatca.gov.sa, regarding the application of transitional provisions, whether at the beginning of VAT implementation in 2018 or the transitional provisions related to the increase of the standard VAT rate to 15%.



11.1 Actual Supply Date

If any supplier issues an invoice or receives payment for a specific service or good before 1st January 2018, while the actual supply of the goods or services occurs on 1st January 2018 or later, this supply is considered subject to VAT based on the actual supply date.⁽⁴¹⁾ The purpose of this rule is to prevent tax evasion through advance payment or early invoicing.

Example (25):

A bank charges an administrative fee to a natural person (the customer) for a transaction carried out in February 2018. The bank had already received the administrative fees in advance from the customer in December 2017. Since the actual supply date of the service for which the administrative fees are due is February 2018, the bank must apply VAT at the Standard Rate to the administrative fees.

As for supplies that are fully performed before 1 January 2018, they are not subject to VAT, regardless of the date of issuing the invoice or receiving the consideration.

11.1.1 Actual Supply Date for Asset Financing and Ijarah Contracts Existing Prior to the Effective Date of the VAT Law

In the case of contracts for financing goods (assets) through finance lease contracts, lease-to-own contracts, or Ijarah, the bank or financial institution enters into the commercial transaction by purchasing the goods (assets) to be acquired in the name of the bank or financial institution from the supplier of the goods (assets). The supplier of the goods (assets) issues a tax invoice in the name of the bank or institution. The bank or institution then supplies these goods (assets) to the lessee (customer) under an Ijarah or lease-to-own arrangement, collecting the consideration over an agreed period of time pursuant to a written agreement.

(41). Article 79 (1), Transitional Provisions, Implementing Regulations.



The agreement stipulates the lessee's (customer's) right to purchase the good (asset) after payment of all agreed installments. The bank collects the value of the good (asset), in addition to financing interest or profit, from the customer in specified periodic installments. At the end of this period, ownership of the good (asset) is transferred to the lessee (customer). It should be noted that real estate supplies have been exempted from VAT as of 4th October 2020, as they have been subject to Real Estate Transaction Tax from that date. Please refer to the Guideline for Real Estate Transaction Tax.

The Authority considers these contracts to be, in substance, contracts for the supply (sale) of goods (assets) on a financing basis, to which the provisions and definitions applicable to non-continuous supplies (a one-time supply of goods) apply, occurring on the date the good (asset) is placed at the disposal of the customer. Accordingly, VAT will be applied to supplies of goods (assets) made under finance lease, *ljarah*, or lease-to-own contracts in which possession of the good is transferred under an agreement providing for the transfer of ownership of that good, or the possibility of its transfer at a later date not exceeding the date of full payment of the consideration, as a single supply of goods taking place on the date the goods are placed at the disposal of the customer.

For contracts concluded after 1st January 2018, VAT becomes due on this supply on the date the goods are supplied, the date the tax invoice is issued, or the date consideration is received (in whole or in part), to the extent of the amount received, whichever is earlier. This supply is not treated as a continuous supply.

However, if the contract was concluded before 1st January 2018 and the asset subject to the contract was actually supplied to the customer before 1st January 2018, VAT does not apply to the principal element of the contract (the value of the supplied asset), and no VAT is due on any installments paid starting from 2018.

The same tax treatment applies to mortgage financing products concluded before 1st January 2018, whereby VAT does not apply to the supply of the real estate subject to the contract if possession was transferred to the customer before 1st January 2018.



It should be noted that real estate supplies have been exempt from VAT as of 4th October 2020, as they have been subject to Real Estate Transaction Tax from that date. Please refer to the Guideline for Real Estate Transaction Tax.

11.2 Continuous Supplies Extending Beyond the VAT Implementation Date

The VAT Law provides that continuous supplies of goods or services (including financial services) that extend to include 1st January 2018 or beyond will be subject to VAT only on the portion of the supply carried out on or after 1st January 2018. VAT does not apply to any portion of the continuous supply performed before 1st January 2018.⁽⁴²⁾

The supplier must apportion the value of such supplies between the period before 1st January 2018 and the period after that date using an appropriate method that reflects the actual supply of goods or services to the customer.

Example (26):

A credit card provider applies an annual fee to its customers for providing card facilities and also charges interest exempt from VAT on outstanding balances paid in installments by the customer. The credit card provider issued an invoice on 29 October 2017 for the annual fee covering one year from 1st November 2017 to 31st October 2018 amounting to SAR 120.

The annual fee relates to the facilities provided to the customer throughout the year; therefore, it is considered a continuous supply. Regardless of the invoice date, VAT should apply only to the portion of the continuous service performed after 1 January 2018. For the annual contract, the amount will be apportioned equally over the contract period. Assuming the fee is inclusive of VAT, the invoice would be as follows:

(42). Article 73, Transitional Provisions, Unified VAT Agreement, and Article 21 (3), VAT Law.



Sales/Outputs	Value (SAR)	VAT Imposed (SAR)	
Card facilities for the period 1st November 2017 - 31st December 2017	20		(Portion performed before 1st January 2018)
Card facilities for the period 1st January 2018 - 31st October 2018	95.24	4.76	(Portion performed on/ after 1st January 2018)
Total amount due	115.24	4.76	120

In all cases, the card issuer may not collect VAT before 1st January 2018. It must issue an additional invoice for the VAT due, collect it on or after 1st January 2018, and declare the tax in the first VAT return for 2018.

The rules relating to the transitional provisions for increasing the standard VAT rate to 15% under Paragraph 10 of Article 79 of the Implementing Regulations of the VAT Law must also be observed. The Guideline on Transitional Provisions for the Increase of the Standard VAT Rate to 15% is available on the Authority's website: zatca.gov.sa.



11.3 Residents of GCC Countries That Have Not Yet Implemented VAT

The rules for determining the application of VAT in many cases depend on whether the supplier or the customer is resident in the GCC territory or is a taxable person in one of the GCC states.

In all cases, if a VAT system has not been implemented in any of the GCC countries through a local system or an electronic cross-border system, the application of VAT in the Kingdom of Saudi Arabia shall be determined as follows:

- That country shall be treated as outside the GCC territory according to the provisions of the Agreement.
- Individuals resident in non-applying countries shall be treated as residents of a third country.
- Establishments in that country shall be treated as non-taxable persons until VAT is applied and they are registered with the competent VAT authority, in addition to applying the provisions of the Agreement regarding intra-GCC supplies.

Treatment of Goods and Supplies Before the Implementation of the E-Services System:

- a. When a taxable person receives goods in the Kingdom from another member state, it shall be deemed to have imported the goods into the Kingdom, and VAT will be collected in accordance with the import provisions.
- b. For VAT purposes, supplies of goods that involve the movement of goods from the Kingdom to another member state shall be treated as exports of goods.

Example (27):

A Saudi company provides financial services to a person resident in the Sultanate of Oman on 14 February 2018, which the client uses in Oman. If Oman has not implemented VAT by that date, this supply shall be treated as a supply of services to a customer outside the GCC territory, as the services will be used outside the GCC. On this basis, the Saudi company may apply the Zero Rate to this supply.



11.4 Application of the Transitional Zero-Rate Provisions to Existing Contracts as of the VAT Effective Date on 1st January 2018

The transitional provisions for applying the zero percent rate may be applied to contracts binding the parties where the application of VAT was not anticipated, provided that the contract text, terms, and provisions do not include any of the following:

- A reference to whether the contract price includes or does not include VAT or taxes in general;
- Any provisions regarding the adjustment of the contract value in the event of applying VAT or taxes on the goods and services supplied under this contract.

The Authority considers a reference to any of the following as a reference to VAT:

- VAT (VAT)
- Tax on value
- Consumption taxes
- Sales taxes
- Transaction taxes
- A general reference to "taxes" (except if defined to exclude any of the aforementioned taxes)

11.4.1 Contracts Eligible for the Transitional Zero Rate Provisions

The transitional provisions allow the application of the zero percent rate to contracts concluded before 30th May 2017, applying the zero percent rate to supplies made under specific existing contracts that are eligible for the transitional provisions. These provisions apply until the contract's expiry, renewal, or until 31st December 2018, whichever is earlier, providing additional time for suppliers and customers engaged in long-term contractual obligations where VAT was not anticipated, to review those contracts and agree on the correct value. The transitional provisions for applying the zero percent rate are only applied if the existing contracts meet all three of the following conditions simultaneously:



1. The contract was concluded before 30th May 2017: The contract date is the date on which it was signed or became binding on both parties. Contracts concluded before this date but later renewed or updated will be considered as concluded on the date of renewal or update.
2. The client must have the right to fully deduct input VAT with respect to this supply, or the client must be a government entity or a "qualified person" entitled to claim a refund of VAT incurred on purchases. The client doesn't need to be fully taxable or able to deduct input VAT in full on all of its activities to benefit from the transitional provisions for applying the zero percent rate to this supply. The transitional provisions for applying the zero percent rate do not apply to supplies made to an unregistered consumer for VAT purposes with the Authority (or not listed among the qualified persons for VAT recovery).
3. The client must provide the supplier with a written certificate stating that it can fully deduct/claim input VAT in relation to that supply. Further details regarding the certificate are provided below.

The Zero Rate applies to supplies under existing contracts eligible for the transitional provisions until the earliest of the following dates:

- The contract expiry date
- The contract renewal date
- 31st December 2018

Accordingly, any supplies made after any of the above dates are subject to VAT under the normal rules, without applying the transitional provisions for the zero percent rate.

The transitional provisions for applying the zero percent rate apply only if the supplies are subject to VAT under the general rules of the VAT law and its Implementing Regulations (where the client can fully deduct the related input VAT). The transitional provisions cannot be used for supplies exempt from VAT or supplies outside the scope of VAT.

It should be noted that real estate supplies were exempt from VAT as of 4th October 2020, as they are subject to the Real Estate Transaction Tax from that date. Please refer to the Guideline for Real Estate Transaction Tax for more information.



Example (28):

Saudi Al-Mal Company, a company resident in the Kingdom of Saudi Arabia, entered into a three-year finance lease agreement with a business registered in the Kingdom of Saudi Arabia (the Client) in July 2016, with an option to purchase the asset at the end of the term. The contract includes a primary element, which is the supply of assets to the Client, constituting a taxable supply, and a financing services element, which is exempt from tax. The transitional provisions applicable to existing contracts do not apply to the exempt financing services. However, if the Client confirms that it may fully deduct the input tax, the other conditions for applying the transitional provision to subject the non-exempt contract supplies are fulfilled. Accordingly, Saudi Al-Mal Company may apply the zero percent rate on the installments up to the earlier of the contract's expiration, its renewal, or 31st December 2018.

11.4.2 Client Certificate for Input VAT Deduction/Recovery

Key points for the financial services sector are:

- The client must respond to the supplier's request for the certificate without undue delay.
- The certificate must relate to the client's ability to recover VAT due on this supply (or these supplies). The certificate does not confirm that the client can fully deduct VAT on all received supplies.

The client may provide the certificate to the supplier by any means (including electronic communication), provided the client confirms their entitlement to deduct input VAT related to this supply (or these supplies).



12. Request for an Interpretive Decision (Ruling)

If you are uncertain about how to apply the tax to a specific activity or transaction that you are conducting or intend to conduct, after reviewing the relevant statutory provisions and the applicable guideline, you may submit a request to the Authority for an Interpretative Decision in accordance with the Tax Ruling Requests Guideline.

13. Contact Us

For further information regarding the treatment of VAT, please visit the website zatca.gov.sa or contact us at the following number: **19993**.



Appendix 1 - List of Financial Products

Product	Consideration	VAT Treatment***
1. Bank Accounts		
1.1 Current Account / Savings Account / Deposit Account	All fees/commissions/commercial discounts	Standard Rate
	• Teller withdrawal fees • Certified check issuance fees	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope
1.2 Electronic Funds Transfer	All fees/commissions/commercial discounts	Standard Rate
	• ATM withdrawal fees • Money transfer fees (domestic or international)	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope
1.3 Cheque Books	All fees/commissions/commercial discounts	Standard Rate
	• Additional cheque book issuance fees • Cancellation of certified bank cheque fees • Returned cheque fees • Request for a copy of a cheque	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope



1.4 Certification	All fees/commissions/commercial discounts	Standard Rate
	Account balance certification fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope
1.5. Bank Statement Issuance Fees	All fees/commissions/commercial discounts	Standard Rate
	• Fees for balance inquiries • Fees for issuing a bank statement at the branch	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope



2. Card Services		
2.1 Debit/Credit cards/ Prepaid cards	All fees/commissions/commercial discounts	Standard Rate
	• Authorization fee • Cash withdrawal fee • Transaction fee • Card statement issuance fee • Replacement card issuance fee (lost/stolen) • Cash advance fee • Card protection fee • Annual fees • Balance transfer fee • Deferred payment fee / Cash installment plan fee • Prepaid card fees • Dispute fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	• Upfront interest on balance transfer • Currency exchange rate margin	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope
2.2 Debit/Check account card	Already covered in 2.1	
2.3 Membership fees	Already covered in 2.1	



3. Money/Cash Transfer		
3.1 General money transfer	All fees/commissions/commercial discounts	Standard Rate
	• International Transfer fee • International service fee • International Remittance Fees • Interchange fee • Remittance charge/commission	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope
3.2. Cash management services	All fees/commissions/commercial discounts	Standard Rate
	• Subscription fee for cash management services • Processing fee • Corporate Payroll management fees • SARIE Transfer fee • Swift Transfer fee • Standing Order fee • Transfer amendment fee • Non receiving funds query fee • Payment stop or recall fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty charges (fines)	Outside Scope



3.3 Electronic Banking	All fees/commissions/commercial discounts	Standard Rate
	• Installation/rental electronic payment device • Electronic payment charge • Clearing charges fee • Fee for additional copies of statements • Standing payment order fees • E-banking token fees • PoS mada transaction fees - merchants • PoS credit card transaction fees - merchants • e-commerce credit card transaction fees • SADAD Account transaction fees	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalties overdue rentals	Outside Scope
3.4 Safe Custody services	All fees/commissions/commercial discounts	Standard Rate
	• Rental of safety deposit boxes located in KSA • Loss/replacement of key fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalties overdue rentals	Outside Scope
	Cost recoveries**	Outside scope
	Force opening charges (third party cost directly recovered from customer)	Standard Rate or outside scope (depending on the nature of the supply)



4. Trade Services		
4.1 Bills (Negotiated or collected)	All fees/commissions/commercial discounts	Standard Rate
	• Acceptance fee • Bill negotiation fee • Collection fee • Extension/roll over fee • Endorsement fee • Courier charge/fee • Postage fee • Redirect fee • Amendment fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Income from discounting bills	Exempt
4.2 Letters of Credit / Standby Letters of Credit	All fees/commissions/commercial discounts	Standard Rate
	• Amendment fee • SWIFT/Cable fee • Courier fee • Inward bill issuance fee • Postage fee • Issuance Fee • Acceptance fee • Confirmation charges • Advising fee • L/C Negotiation fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Interest	Exempt



4.3 Guarantees (including shipping) & Bankers' Acceptance	All fees/commissions/commercial discounts	Standard Rate
	• Guarantee commission fee • Handling fee • Courier fee • Postage fee • Issuance Fee • Amendment fee • Advising guarantee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	• Bankers' Acceptance dealing profit • Discount on Face Value Bankers' Acceptance	Exempt
	• Fees on Trading in Bankers Acceptances • Commission on Bankers' Acceptance	Standard Rate
	Charges of a punitive nature*	Outside Scope
	Penalties late return	Outside Scope



5. Credit and Lending

5.1 General credit and advances	All fees/commissions/commercial discounts	Standard Rate
	• Subscription fee - syndication • Commitment fee • Admin Fees • Securitization fee • Documentation fee • Processing fee • Arrangement fee • Participation Fee • Management Fee • Rescheduling Fee • Structuring Fee • Underwriting Fee • Agency Fee • Advisory Fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	• Interest charges • Implicit margin for securitization	Exempt
	Fees on Issue or transfer of debt securities	Standard Rate
	• Loan Issuance fees • Securitization of debt security fees	Standard Rate
	• Loan Portfolio Transfer Fees • Commission on Sale of debts or receivables	Standard Rate
	Cost Recoveries**	Outside Scope
	• Statutory notices charges • Letter of demand charges • Liquidator fee • Legal fee • Valuer fee • Auction fee • Reimbursement fee	Standard Rate or outside scope (depending on the nature of the supply)



5.2 Mortgage loans (including other asset-backed financing)	All fees/commissions/commercial discounts	Standard Rate
	• Administration fee • Evaluation fees • Refinancing and rescheduling fee	Standard Rate
	Fees on Issue or transfer of debt securities	Standard Rate
	• Loan Issuance fees • Commission on the Sale of loan or loan portfolio	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	• Interest charges	Exempt
5.3 Sale of Receivables Al-Madinah / Factoring	Early Settlement	Outside Scope
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Book Transfer fees	Standard Rate
	Full Transfer of a Debt Instrument	Fees are taxable, and the margin is exempt
	Sale of Debt without Recourse	Fees are taxable, and the margin is exempt
	Assignment of Debt	Outside Scope
	Assignment of Debt with Full Right of Recourse	Outside Scope



6. Financing		
6.1 Finance Lease (including lease with a promise to own) Note: Where the consideration is payable in periodic instalments, a separate supply must be made for each instalment on the due date of payment or on the actual date of payment, whichever occurs first. It should be noted that real estate supplies were exempted from VAT effective from 4th October 2020G, and are subject to Real Estate Transaction Tax as of that date. Please refer to the Guideline for Real Estate Transaction Tax.	All fees/commissions/commercial discounts	Standard Rate
	- Principal component of the instalments - Insurance fee - Administrative fees	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	- Financing/Lending component relating to the instalments - Interest adjustment - Interest on late payment - Interest subsidy from a licensed dealer/ manufacturer	Exempt
	Charges of a punitive nature*	Outside Scope
	Penalty fee	Outside Scope
	Cost Recoveries**	Outside Scope
	- Repossession costs - Non-refundable tracking device fee - Auctioneer commission - Storage fee	Standard Rate
	- Vehicle towing/recovery fee - Costs of obtaining a duplicate set of keys - Legal fee	Standard Rate
6.2 Operational Lease	See under 6.1 (Financial Lease)	



7. Capital Markets

7.1 Securities Transactions Note: Securities transactions include commercial paper transactions, financial derivatives, option contracts, swap contracts, credit default swaps, futures trading, short-term money market operations, bonds, treasury bills, and all other capital market operations	All fees/commissions/commercial discounts	Standard Rate
	• Brokerage fee • Supply of the underlying asset • Regulator/Regulatory fee • Extension/Renewal fee • Collection fee • Subscription fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	• Issuance of Securities • Sale and purchase of securities (trading as an asset) • Option contract premiums • Trading income earned from securities or underlying commodities • Trading gains • Premium for structured products • Full subscription activity	Exempt
	Charges of a punitive nature*	Outside Scope
	Early redemption penalty	Outside Scope



7.2 Clearing and Settlement	All fees/commissions/commercial discounts	Standard Rate
	• Commission fee • Transaction fee • Settlement fee • Custody fee • Drafts Issue and Encashment fee • Brokerage fee • Clearing fee • Custodian fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Cost recoveries**	Outside Scope
	Saudi Central Bank fees	Outside Scope



7.3 Financial/Strategic Advisory/Investment management/Asset Management	All fees/commissions/commercial discounts	Standard Rate
	• Subscription fee • Upfront fees • Transaction completion fee • Portfolio management fee • Portfolio structuring fee • Fund establishment fee • Custody fee • Trust management fee • Referral fee	Standard Rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	• Performance fee • Guarantee account fee • Documentation fee • Legal fee • Transfer fee	Standard rate
	Annual percentage rate/interest/ other implicit consideration	Exempt
	Profit margins	Exempt
	Cost recoveries**	Outside Scope
	Legal fee (third party)	Standard Rate or outside scope (depending on the nature of the supply)



8. Islamic Finance		
8.1 Murabaha/Tawaruq	All fees/commissions/commercial discounts	Standard Rate
	• Purchase and sale of supplies • Commodity charges/fee • Administration fee	Standard Rate
	Financing element/ implicit consideration	Exempt
	• Fee based on profit margins • Lending fee based on implicit margin	Exempt
8.2 Lease/Ijarah (Please note that real estate supplies were exempted from VAT effective from 4th October 2020G, and are subject to Real Estate Transaction Tax as of that date)	All fees/commissions/commercial discounts	Standard Rate
	• Purchase of assets by bank • Principal component of installments • Administration fee • Assessment fee	Standard Rate
	Financing element/ implicit consideration	Exempt
	• Financing income (margin)	Exempt
8.3 Participation/ Musharaka	All administrative fees	Standard Rate
	• Purchase and sale of supplies • Administrative fees	Standard Rate
	All administrative fees	Exempt
	• Financing income - Exempt • Profit margins	Exempt



8.4 Mudarabah	All administrative fees	Standard Rate
	• Administrative fees • Arrangement fees - for companies	Standard Rate
	Financing element/ implicit consideration	Exempt
	• Profit margins • Commissions based on profit margins • Other implicit margins	Exempt
8.5 Wakala	All administrative fees	Standard Rate
	• Administrative fees	Standard Rate
	Financing element/ implicit consideration	Exempt
	• Profit margins • Retention of excess profits	Exempt

Notes:

* Fees of a punitive nature must be interpreted narrowly and applied only to fees that are separate from the consideration for products/services.

** Recovery operation costs are costs payable to a third party for providing a supply to the customer, where the value of the supply has been paid by the financing company on behalf of the customer and subsequently collected from the customer. Accordingly, recovered funds do not take into account the supply provided by the financial institution, and therefore the recovery of costs can only be treated as outside the scope of VAT when incurred on behalf of the customer in this manner. The cost invoice must be issued in the name of the customer / financed party. Any items incurred by the financing company in its own name and subsequently charged to the customer are subject to VAT at the rate applicable to the underlying cost.

*** The VAT treatment assumed in this document presumes that both the supplier and the customer are resident in the Kingdom of Saudi Arabia and that the transaction does not involve any entity outside the Kingdom of Saudi Arabia. VAT treatment may differ for cross-border transactions involving parties established outside the Kingdom of Saudi Arabia.



Appendix 2: List of Insurance Products

Table 1 - General and Health Insurance: Insurance and Reinsurance Premiums	Mandatory Insurance	Optional Insurance	Subject to VAT	Exempt from Tax	Outside the Scope of VAT in the Kingdom
1. Insurance against Accident and Liability Risks			•	•	
a. Personal accident		Optional	•		
b. Work-related injuries		Optional	•		
c. Employer's liability		Optional	•		
d. Third-party liability		Optional	•		
e. General liability		Optional	•		
f. Product liability		Optional	•		
g. Medical liability		Optional	•		
h. Professional liability		Optional	•		
i. Theft and robbery		Optional	•		
j. Fidelity		Optional	•		
k. Insurance for cash in vaults and during transit		Optional	•		
l. Other insurances within the scope of liability insurance		Optional	•		
m. Motor vehicle insurance - Mandatory	Mandatory		•		



n. Motor vehicle insurance - Mandatory + Others	Mandatory		•		
s. Property insurance		Optional	•		
o. Property insurance - Optional Outside the Kingdom		Optional			•
f. Marine insurance - Hull of ships - Optional		Optional	•		
g. Marine insurance - Cargo - Optional		Optional	•		
h. Aviation insurance		Optional	•		
i. Energy insurance		Optional	•		
j. Engineering insurance		Optional	•		
k. Engineering insurance - (Sites Outside the Kingdom)		Optional			•
l. Other general insurance branches		Optional	•		
m. Health insurance - Mandatory	Mandatory		•		
n. Health insurance - Mandatory + Others	Mandatory		•		
o. Life insuranceOthers				•	



Table 1 - General and Health Insurance: Insurance and Reinsurance Premiums	Mandatory Insurance	Optional Insurance	Subject to VAT	Exempt from Tax	Outside the Scope of VAT in the Kingdom
a. Protection insurance - Individuals		Optional		•	
b. Protection with savings insurance - Individuals		Optional		•	
c. Other protection and savings insurance - Individuals		Optional		•	
d. Protection insurance - Groups		Optional		•	
e. Protection with savings insurance - Groups		Optional		•	
f. Other protection and savings insurance - Groups		Optional		•	



Other supplies or cases	Mandatory Insurance	Optional Insurance	Subject to VAT	Exempt from Tax	Outside the Scope of VAT in the Kingdom
Commission or any fee on brokerage or agency (Table 1 or 2)			•		
Sale of goods recovered as part of an insurance policy			•		
Sale of goods on behalf of or in the name of the policyholder					•
Sale of other business assets			•		
Consulting and administrative services			•		
Settlement of cash claims to the insured under the insurance policy					•
Replacement of insured goods under the insurance policy					•
Carrying out repairs or other services as the principal supplier on behalf of the insured under the policy					•
Receipt of payments from a reinsurance agreement					•



Appendix 3: Frequently Asked Questions

1. Will a bank statement be accepted as a substitute for an individual invoice for VAT?

A bank statement may be accepted as a VAT invoice if the issued bank statement meets the requirements outlined in Article 53 of the Implementing Regulations of the law. This means that the bank statement for customers registered for VAT and all legal persons must include clear, detailed information such as the invoice date, supplier tax identification number, taxable amount, applicable tax rate, and the VAT amount imposed. Regarding supplies made within the Kingdom of Saudi Arabia with a value of less than SAR 1,000, a simplified invoice may be issued.

2. How are internal interchange fees treated for VAT purposes?

For VAT purposes, internal interchange fees constitute the consideration received by the issuing bank when the same party is not the acquiring bank (i.e., the bank executing the payment to the merchant when using the card). The fact that the Central Bank settles internal interchange fees on a net basis does not change the fact that the issuing bank supplies to the acquiring bank with the gross amount of the internal interchange fees. Since internal interchange fees are explicit fees, this constitutes a supply subject to the standard VAT rate of 15%, and the issuing bank is responsible for collecting VAT and issuing the invoices.

3. How often must a bank calculate the proportional deduction rate during each fiscal year?

In general, the partial deduction rate is calculated annually using the value of supplies during the most recent calendar year. However, if this rate was not recorded in the previous calendar year, estimated values for the current calendar year must be used. At the end of the year, taxable persons must compare the estimated values with the actual values and make the necessary actual adjustments in the final VAT return of the calendar year to reflect the actual deductions.



4. Is there a minimum threshold that can be applied before applying for the partial deduction?

There is no minimum threshold applicable in the Kingdom of Saudi Arabia.

It should be noted that interest on surplus funds in bank accounts available for use is not considered a supply for VAT purposes, as it does not constitute a supply of goods or services for consideration (i.e., it is outside the scope of VAT).

5. How are the secondment of employees or outsourcing to external companies treated?

Employee activity is not considered an economic activity; therefore, VAT is not imposed on salaries. This does not apply to the provision of services by an individual in a personal capacity. In some cases, engaging external employees (where the service recipient directs the employees and treats them as if they were its own staff) may be treated as an expense. This will depend closely on the commercial and contractual agreements between the parties. Similarly, outsourcing to external companies and the contractual relationship between employees and business establishments are commercial decisions, and business establishments should determine the appropriate VAT treatment in these cases.

6. How is VAT applied to prompt, full, and final payment discounts?

Where prompt, full, and final payment discounts relate to prior supplies, the supplier must issue a VAT credit note. Input tax must be adjusted in the tax period in which the credit note is issued.

7. How is VAT applied to insurance contracts issued to employees or other persons if no consideration is received?

In cases where no consideration is received for such contracts, the supply will be treated as a deemed supply (in accordance with Article 39 of the Implementing Regulations of the law). The value of the deemed supply (on which VAT must be applied) is the purchase price or cost incurred by the supplier, or, if this amount cannot be determined at the time of the deemed supply, the fair market value. VAT on the deemed supply is not due if input tax is incurred and not deducted by the supplier in relation to those supplies has not been deducted, and the proceeds of the deemed supply have not been excluded from the partial deduction calculation.



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