VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

Examination, Assessment, Correction, and Objection on ZATCA Decisions

Version 3 | May 2026

Note: The English version is for guidance purposes only. In case of any discrepancy between the Arabic and English versions, the Arabic version shall prevail

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

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

Amendment log

#	Edition No.	Amendment Date	Section/ Item	Amendment Type	Amendment Description	Remarks
2	3	May 2026	4.4.1 5.1 5.1.1	Amendment	Updating in accordance with the amendments to the implementing Regulations of the Value Added Tax (VAT) Law, issued under Board of Directors Resolution No. (1-4-23) dated 26/11/1444H, corresponding to 15/06/2023	-

Contents

1. Introduction	7
1.1 Implementing the Value Added Tax ("VAT") in the Kingdom of Saudi Arabia ("KSA")	7
1.2 Zakat, Tax and Customs Authority	7
1.3 What is Value Added Tax?	8
1.4. This Guideline	9
2. Definitions of Key Terms	10
3. Economic Activity and VAT Registration	11
3.1. Who Carries Out an Economic Activity?	11
3.2. Mandatory VAT registration	11
3.3. Optional VAT Registration	13
4. Assessment	13
4.1. Tax Period	13
4.1.1. Change to Tax Period	13
4.2. Taxpayer Assessment	14
4.3. Issuance of Estimated Assessment by the Authority	20
4.4. Issuance of New Assessment by the Authority	21
4.4.1 Timelimit to Issue an Assessment	23
4.5. Assessment in cases of Joint Liability	24
5. Taxpayer Correction of Returns	26
5.1. Overstatement of Net Tax Due	26
5.1.1. How to Correct the Tax Overstatement	26

5.1.2. Required Information and Records to Substantiate the Validity of the Adjustment 28
5.2. Understatement of Net Tax Due 28
5.2.1. How to notify the Authority and correct the understatement 28
5.2.2. Required Information and Records to Substantiate the Validity of the Adjustment 29
5.2.3. Issuance of a new Assessment to Replace the Original Assessment 30
5.3. Low Value Understatements of Net Tax 30
5.3.1. Correction of Multiple Errors Related to the Net Tax Due of Previously Submitted Tax Returns 31
5.4. Correction of a Single Error Repeated in Multiple Tax Periods 32
6. Examinations by the Authority 35
6.1 Notifying the Taxable Person of an Examination 35
6.2 What to Expect during a Standard Audit 35
6.2.1. Examination on the Premises of the Taxable Person 36
6.2.2. Transfer of Documents 36
6.2.3. Failure to Provide Requested Information 36
6.2.4. Procedures during Examination 37
6.2.5. Additional Records 37
6.3. Completion of the Examination 37
6.3.1. Assessment in Respect of any Tax Period 38
6.3.2. Penalty in Respect of an Incorrect VAT Return or Other Violation 38
6.3.3. Direction to Apply Correct VAT Treatment in Future Practice 38
6.3.4. Request the Registration or Cancellation of Registration of a Taxable Person 38
6.3.5. Notification of Completion and Conclusions of the Examination without Further Formal Action 39

6.4. Examination of Electronic Records 39
7. Obtaining information 40
7.1. Requesting information 40
7.1.1. Access to information held by third parties 40
7.1.2. Timelimit to Provide Requested Information 40
7.2. Confidentiality of information 40
8. Objecting to an Assessment Issued by the Authority 42
8.1. Objecting to an Assessment 42
8.1.1. Security 43
8.1.2. Internal Review 43
8.2. Internal Dispute Settlement Committee 44
8.2.1. Settlement Committee Process 45
8.2.2. Rejection of Settlement 46
8.3. Appealing to the VAT First Instance Committee 46
8.4. VAT Objection Flowchart 48
9. VAT Obligations of the Taxable Person 49
9.1. Issuing Tax Invoices 49
9.2. Filing VAT Returns 50
9.3. Keeping Records 50
9.4. Display of Certificate of Registration within the VAT Law 51
10. Penalties 52
11. Applying for the Issuance of Interpretative Decisions 57

1. Introduction

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

The Unified VAT Agreement for the Cooperation Council for the Unified Arab States of the Gulf (the "VAT Agreement") was approved by the KSA by Royal Decree No. M/51, dated 3 Jumada al-Awwal 1438H. Pursuant to the provisions of the Unified VAT Agreement, the KSA issued the VAT Law under Royal Decree No. M/113 2 Dhu al-Qi'dah 1438H(the "VAT Law") and its corresponding Implementing Regulations were subsequently issued by the Board of Directors of the General Authority of Zakat and Tax (formerly GAZT, now the Zakat, Tax and Customs Authority "ZATCA")) by Resolution No. 3839 dated 14 Dhu al-Hijjah 1438H (the "Implementing Regulations")"), as subsequently amended by later Board resolutions.

1.2. Zakat, Tax and Customs Authority)

Cabinet Decision No. (570), dated 22 Ramadan 1442 AH (corresponding to May 4, 2021 AD), was issued approving the merger of the General Authority of Zakat and Tax and the General Authority of Customs into a single entity under the name Zakat, Tax and Customs Authority (ZATCA). ZATCA is responsible for collecting Zakat, taxes, and customs duties, and for achieving the highest levels of compliance among Zakat payers in accordance with best practices and with high efficiency. It also seeks to enable the Kingdom of Saudi Arabia to become a global logistics hub by facilitating trade, protecting national security, and regulating all activities related to customs operations and border crossings, as well as managing them to ensure the highest possible levels of efficiency, productivity, and competitiveness. This is accomplished through the provision of high-quality services that focus on customers and their needs, in line with leading international practices.

1.3. What is Value Added Tax?

VAT is an indirect tax which is imposed on the importation and supply of goods and services, with certain exceptions. VAT is imposed in more than 160 countries around the world. VAT is a tax on consumption that is paid and collected at every stage of the supply chain, starting from the point when a manufacturer purchases raw materials until a retailer sells the end-product to a consumer. Unlike other taxes, persons registered for VAT will both:

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

When taxable persons sell a good or service, a 15% VAT charge - assuming a standard case - is assessed and added to the final sales price. The taxable persons will account for that 15% that they have collected or due for collection from all eligible sales separately from their revenue in order to later remit a portion of it to the Authority. The VAT taxable persons collect on their sales is called Output VAT.

The same will apply to purchase transactions, in that VAT will be added at the rate of 15% to purchases of goods or services made from suppliers registered for VAT (on the assumption that the basic rate applies to those supplies). The VAT a business pays to its suppliers is called Input VAT.

zatca.gov.sa. For more information, please visit our website at zatca.gov.sa or call the unified number **19993**.

1.4. This Guideline

This guideline is addressed to all natural and legal persons who carry on an economic activity and who will be required to register for VAT. The purpose of this guideline is to provide information on the rights and obligations of Taxable Persons and the Authority when dealing with Examinations, Assessments, and Corrections.

For further advice on specific transactions, you may apply for a ruling or visit ZATCA's website (**zatca.gov.sa**), which contains a wide range of tools and information that has been established as a reference to support persons subject to VAT, as well as visual guidance materials, other relevant information, and FAQs.

2. Definitions of Key Terms

- **Assessment** – An assessment of a Taxable Person's Net Tax due is made either:
  - by a Taxable Person upon submitting the Tax Return(1), or
  - by the Authority in any other circumstances[2].

- **Correction** – A notification made to the Authority by the Taxable Person in relation to an error or incorrect amount made in a filed Tax Return, for the purpose of correcting the Tax Return.

- **Examination** – An audit of the compliance of a Taxable Person with its VAT obligations, carried out by the Authority at the Taxable Person's premises or the Authority's premises or any other location specified by the Authority[3].

- **Net Tax** – Defined in the Unified VAT Agreement as "Tax resulting from deducting the Deductible Tax in a Member State from the Tax due in that State within the same Tax Period. Net Tax may either be payable or refundable.[4]"

- **Objection** – A formal objection made to the relevant committee or judicial body by a Taxable Person to an Assessment or decision issued by the Authority.

- **Records** – The required books, tax invoices, accounting documents, and other records, which are required to be maintained for VAT compliance purposes.

- **Tax Return or VAT return** – The filing made to the Authority by a Taxable Person declaring the total Output Tax, Deductible Input Tax, and Net Tax payable or refundable in respect of a specific Tax Period.

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[1] Article 62(1), Implementing Regulations

[2] Article 64, Implementing Regulations

[3] Article 64, Implementing Regulations

[4] Article 1, Unified VAT Agreement

- **Tax Period –** Defined in the Unified VAT Agreement as "The period of time for which the Net Tax must be accounted[5]." In the KSA, the tax period is either a calendar month or a calendar quarter, depending on the value of the annual taxable supplies for that Person.

3. Economic Activity and VAT Registration

3.1. Who Carries out an Economic Activity?

An Economic Activity may be carried out by natural or legal persons. It will be presumed that a legal person that has a regular activity making supplies carries on an Economic Activity. Natural persons may perform certain transactions as part of their Economic Activity, or as part of their private activities. There are, therefore, specific rules to determine whether or not a natural person falls within the scope of VAT. Natural persons and legal persons who carry on an Economic Activity must register for the purposes of VAT if the registration requirements are fulfilled, and such persons must calculate the VAT applicable to their activities, collect and pay the tax to the Authority through their periodic returns.

3.2. Mandatory VAT registration

Registration is mandatory for all persons whose annual taxable supplies exceed a certain threshold. If the total value of a person's Taxable Supplies during any 12 months exceeds SAR 375,000 (the "mandatory VAT registration threshold"), that person must register for VAT[6] on the supplies made, subject to the transitional provisions provided for in the Implementing Regulations of the Law relating to the mandatory registration threshold during the transitional period.

[5] Article 1, Unified VAT Agreement

[6] Article 3, Implementing Regulations

For the purpose of calculating the mandatory registration threshold, the taxable supplies for VAT purposes shall not include the following

- Exempt supplies – such as exempt financial services or residential rental, which qualify for VAT exemption;
- Supplies taking place outside the scope of VAT in any GCC state; or
- Revenues on sales of capital assets – a capital asset is defined as an asset allocated for long-term business use[7].

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

- Persons who are not resident in the Kingdom of Saudi Arabia are required to pay the VAT in respect of supplies made or received by them in the Kingdom of Saudi Arabia and to register for VAT irrespective of the value of the supplies for which they are obliged to collect and pay the VAT[8].

More information on mandatory registration for VAT is available at **zatca.gov.sa**

[7] Article 1, Unified VAT Agreement

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

[9] Article 79(9), Implementing Regulations

3.3. Optional VAT Registration

Any Resident person in the Kingdom of Saudi Arabia who has Taxable Supplies or taxable expenses exceeding the "Optional VAT registration threshold" of SAR 187,500 in a twelve-month period may register for VAT on a voluntary basis[10]. Optional VAT registration may be desirable where a business wishes to claim VAT charged to it on its costs before invoices are raised or the occurrence of an onward supply. More information on voluntary registration for VAT is available at **zatca.gov.sa**

4. Assessment

4.1. Tax Period

Each VAT registered person, or the person authorised to act on its behalf, must file a VAT return with the Authority for each Tax Period. A Tax Period is defined in the Unified VAT Agreement as "The period of time for which the Net Tax must be accounted." In the KSA, the tax period is either a calendar month or a calendar quarter.

Monthly tax periods are mandatory for taxable persons with annual taxable supplies exceeding SAR 40 million. For all other VAT-registered persons, the standard tax period is three months.

4.1.1. Change to Tax Period

The Authority may permit a Taxable Person to change its Tax Period pursuant to a request submitted to the Authority in accordance with the terms and conditions included in the Implementing Regulations[11].

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[10] Article 7, Implementing Regulations

[11] Article 27(2), VAT Law

A Taxable Person whose annual taxable supplies does not exceed the threshold of SAR 40 million may submit an application to apply a monthly Tax Period[12]. Applying a monthly Tax Period can be beneficial for a Taxable Person that might be in a permanent refundable VAT position.

A Taxable Person who has applied the monthly Tax Period for two years may submit an application for a Tax Period of three months, provided that the Taxable Person's value of annual Taxable Supplies during the last twelve months does not exceed the threshold of SAR 40 million[13].

In case the Authority approves the application to use the monthly Tax Period, the Authority will issue a notification to the Taxable Person, which includes the effective date of the change[14]. The Authority may, with a reasoned decision, obligate a Taxable Person to change its Tax Period[15]. In cases where the Authority directs the Taxable Person to apply a certain Tax Period, it will issue a notification and the effective date of applying such Tax Period[16].

4.2. Taxpayer Assessment

The VAT return is considered the Taxable Person's self-assessment of tax due for the relevant Tax Period. All figures on the submitted VAT return form part of the Assessment of the Taxable Person's own tax obligations and rights. The VAT Law is based on the self-assessment of tax by the Taxable Person. The Authority therefore accepts any amounts reported by the Taxable Person, and assumes their validity, provided that those amounts may later be amended as a result of an assessment issued by the Authority within the statutory deadline.

An illustrative VAT return form is included below.

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[12] Article 58(3), Implementing Regulations

[13] Article 58(5), Implementing Regulations

[14] Article 58(4) and Article 58(6), Implementing Regulations

[15] Article 27(3), VAT Law

[16] Article 58(7), Implementing Regulations

VAT Return Form - Sales and Purchases Summary

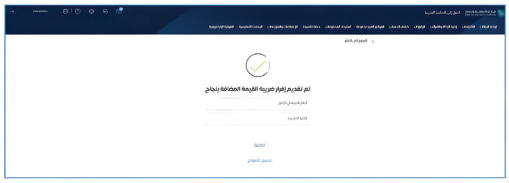


The major parts of the VAT return are the Output Tax, Deductible input tax, and Net Tax due or refundable for the relevant Tax Period.

After the submission of the VAT return, the Taxable Person will receive a confirmation that the Assessment of the Taxable Person has been received. In this regard, the Taxable Person will receive the following electronic notifications:

- Tax return receipt acknowledgement;
- Copy of the Tax return form;
- Notification for SADAD billing purposes "Payments system's invoice – SADAD invoice".
- Notification of receipt of the return form
- Copy of the tax return form
- Notification of invoice receipt





Invoice Receipt Notification



هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

التاريخ: XXXXXXX
الموافق: XXXXXXX
الرقم المميز: XXXXXXX
الرقم المرجعي للطلب: XXXXXXXXX

XXXXXXXXX

اشعار صدور فاتورة

عزيزي المكلف/ الرقم المميز : XXXXXXX

XXXXXXX للفترة الضريبية: الربع الاول 2021 وبيان الضريبة المستحقة من خلال الإقرار كالتالي.

رقم فاتورة سداد	وصف العملية	بداية الفترة	نهاية الفترة	اخر موعد للسداد	المبلغ
XXXXXXX	ضريبة القيمة المضافة	XXXXXXX	XXXXXXX	XXXXXXX	XXXXXXX
XXXXXXX	عقوبة تقديم الإقرارات المتأخرة	XXXXXXX	XXXXXXX		XXXXXXX
XXXXXXX	عقوبة السداد المتأخر	XXXXXXX	XXXXXXX		XXXXXXX
إجمالي مبلغ الضريبة المستحقة					XXXXXXX

في حال وجود ضريبة مستحقة واجبة السداد نأمل المبادرة بسدادها في الوقت المحدد باستخدام رقم فاتورة سداد الموضحة لتجنب الغرامات المستحقة. علماً بأن رمز مفوتر السداد الخاص بالهيئة : (xxx)

مع تحياتنا...
هيئة الزكاة والضريبة والجمارك ...

لمزيد من المعلومات نرجو الاتصال بالهيئة على الرقم 19993

هيئة الزكاة والضريبة والجمارك

An Assessment received by the Taxable Person through the Return is not a final and closed Assessment. The Authority has the right to issue a new Assessment[17] (for example, if an error is later found). In section 4.4 further information is provided on the issuance of a new Assessment by the Authority.

The VAT return must be filed, and the corresponding payment of Net Tax due made, no later than the last day of the month following the end of the Tax Period to which the Net Tax relates. The table below holds an overview of the applicable dates for submitting the VAT return and payment of the Net Tax due to the Authority.

Monthly Tax Return Schedule

Due Tax Period dates	Return and payment due	Tax Period dates	Return and payment due
Jan. 1-31	Feb 28	July 1-31	Aug. 31
Feb. 1-28	March 31	Aug. 1-31	Sep. 30
March 1-31	April 30	Sept. 1-30	Oct. 31
April 1-30	May 31	Oct. 1-31	Nov. 30
May 1-31	June 30	Nov. 1-30	Dec. 31
June 1-30	July 31	Dec. 1-31	Jan. 31

Quarterly Tax Return Schedule

Tax Period dates	Return and payment due	Tax Period dates	Return and payment due
March 1-31	April 30	July 1-Sept. 30	Oct. 31
April 1-June 30	July 31	Oct. 1-Dec31	Jan. 31

[17] Article 26 (1), VAT Law

When the Authority receives a payment from a Taxable Person, this payment will first be applied to the balance of the Tax Period to which the payment refers. Any excess balance will be applied to penalties, fines, or charges due originating from any previous Tax Period, and the remainder will then be applied to outstanding balances for other Tax Periods, starting from the oldest period with a balance payable[18].

Example (1):

Al Waha Co, established in the KSA, is active in the management consulting business. Al Waha Co is registered for VAT and files monthly VAT returns. Al Waha Co has an unpaid balance of SAR 2,500 for the VAT return submitted for the Tax Period July 2021. The VAT return submitted for the Tax Period August 2021 results in an amount of Net Tax payable to ZATCA of SAR 20,000. Al Waha Co processes a payment to the bank account of the Authority of SAR 22,500, referring in full to the Tax Due of the August 2021 Tax Period.

This payment will first be applied to the August 2021 Tax Period as referred, until the outstanding amount of SAR 20,000 is fully settled. The excess payment of SAR 2,500 will be used to reduce the outstanding balance for the July 2021 Tax Period, which amounts to SAR 2,500.

The Authority has the right to offset any VAT credit balance against any other taxes due by the Taxable Person. In this case, the Authority shall notify the Taxable Person where an offset of a credit balance is carried out[19].

A separate guideline on VAT Filing provides additional information on the online Returns submission process, including detailed screenshots.

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[18] Article 59(7), Implementing Regulations

[19] Article 59(8), Implementing Regulations

4.3. Issuance of Estimated Assessment by the Authority

In cases where a Taxable Person has not filed its Tax Return on or before the due date (on the last day in the month following the end of the Tax Period to which the Tax Return relates), the Authority has the right to issue an Assessment based on its best estimate of the Tax properly due for the relevant Tax Period[20].

For the purpose of applying the Law, the estimated Assessment which is prepared by the Authority has the same status as a Taxable Person's self-assessment. The Authority has all powers to collect any Tax due based on the Assessment and to impose the relevant penalties.

The penalty for a Taxable Person who fails to submit a Tax Return within the statutory deadline shall be not less than five (5)%, and not more than twenty-five (25) %, of the value of the Tax that he should have reported. In cases where a penalty is imposed in respect of an estimated Assessment by the Authority, such penalty is based on the estimate of the Tax properly due[21].

In all cases, the Taxable Person remains obligated to submit the outstanding Tax Return. An Assessment issued by the Authority based on another estimation of the Tax due can be with drawn after the filing of a completed Tax Return for that Tax Period by the Taxable Person (or a person authorised to act on its behalf). In cases where the estimated assessment is withdrawn, the Authority will change any prior fines orpenalties imposed based on the earlier Assessment to align with the new Assessment submitted by the Taxable Person.

[20] Article 62(1), Implementing Regulations

[21] Article 42(3), VAT Law

Example (2):

Al Sunbolah Co, a KSA trading company, has failed to submit its VAT return for the period ended 31 March 2022 within the statutory deadline. As a result, the Authority issues an estimated Assessment on 20 May 2022 based on the estimated VAT amount due by the Authority. (The Authority might rely on the Net Tax reported in previous tax periods). The estimated amount of Net Tax payable is SAR 100,000, resulting in a penalty of 5% of the estimated Net Tax. The amount payable by the Company has become SAR 105,000.

After receiving the Assessment, Al Sunbolah Co submits a self-assessment on 25 May 2022 declaring Net Tax payable of SAR 50,000 for the respective period, based on the actual taxable turnover figures. The Authority agrees to withdraw the earlier estimated Assessment. As a result, the penalty for failing to submit a VAT return is adjusted to SAR 2,500 (being 5% of the total Net Tax actually due in the subject Tax Period).

4.4. Issuance of New Assessment by the Authority

The Authority is responsible for reviewing the correctness of VAT returns or other documents submitted to the Authority, and for carrying out formal examinations to ensure compliance to the VAT Law. In case the Authority selects a VAT return or document filed by a Taxable Person to be subject to a review, then the Taxable Person may be contacted and asked:

- to explain any aspect of a document or Tax Return submitted by it;
- to provide evidence to prove the correctness of its VAT return, which may include certain tax invoices or relevant business records such as contracts or bank statements or accounts receivable and accounts payable, or VAT accounts.

If the Authority observes an error in a VAT return or other document submitted to it by a Taxable Person during an examination or in any other cases, it may issue an Assessment to correct that error. The powers of the Authority to raise a new assessment are not limited to the occurrence of an examination. An assessment can be issued at any time (subject to the time limitations outlined below), and can also be based on any relevant information provided by the Taxable Person or a third party.

A new Assessment may replace any earlier Self-Assessment of the Taxable Person or any earlier estimated Assessment issued by the Authority. In these cases, any prior fines or penalties imposed based on the earlier Assessment will change to align with the new Assessment. The Authority shall notify the Taxable Person that an Assessment is issued and of its rights to object to the Assessment. An Assessment issued will, at a minimum, show the following[22]:

- Net VAT payable;
- Due date for payment of any Tax differences, if any; and
- The basis for the calculation of the Assessment.

Where applicable, an Assessment may also show a penalty or fine issued in respect of a Tax Period or Tax Periods. It is to be noted that the new payment deadline shown in the Assessment Notification does not change the original deadline to pay the Tax for the relevant Tax Period.

[22] Article 64(1) and (2), Implementing Regulations

4.4.1 Time limit to Issue an Assessment

The Authority may assess a Taxable Person in respect of one or more Tax Periods, within five years from the end of the calendar year in which the Tax Period falls[23]. In cases where any transaction is carried out with the intention of breaching VAT Law and Regulations or failure to register for VAT, Assessments may be issued or amended up to a period of twenty years from the end of the calendar year in which the Tax Period falls[24].

Furthermore, the Authority may audit any tax period for which a tax refund request has been submitted, within a calendar year starting from the date the request was submitted to the Authority.

Examples of Taxpayer's Tax Periods – (no intentional breach of the law)	ZATCA may issue an assessment at any time up to:
Quarter ended 31 March 2020	31 December 2025
Month ended 31 March 2020	31 December 2025
Month ended 30 September 2022	31 December 2027
Quarter ended 31 December 2022	31 December 2027

Examples of Taxpayer's Tax Periods – (failure to register or intentional breach of the laws)	ZATCA may issue an assessment at any time up to:
Quarter ended 31 March 2018	31 December 2038
Quarter ended 31 March 2020	31 December 2040

[23] Article 64(3), Implementing Regulations

[24] Article 64(4), Implementing Regulations

Example (3):

The Ideal Supplies Co, a KSA retail company specialized in medical goods, has a monthly Tax Period. Due to an error, The Ideal Supplies Co incorrectly applied the zero rate on the supplies of certain non-qualifying medical goods by mistake, resulting in the submission of incorrect VAT returns in the three-monthly tax periods of November 2020, December 2020 and January 2021. After this time, The Ideal Supplies Co ceased selling those particular goods. During an examination of the company's tax affairs in February 2026, the Authority became aware of the incorrect application of the zero rate. The Authority can issue an Assessment during 2026 for the monthly Tax Period of January 2021, as the assessment date falls within five years from the end of the calendar year in which the Tax Period falls. The error does not involve any intentional breach of the law; therefore, the Authority may not issue an assessment at any time in 2026 for the two monthly periods falling within 2020, i.e., after the end of the 5-year deadline to issue a new Assessment in normal circumstances.

4.5. Assessment in cases of Joint Liability

Any Person who willfully participates in violating any of the obligations mentioned in the Unified VAT Agreement or the KSA VAT Law and its Implementing Regulations shall be jointly liable with the concerned Person to pay the Tax and any other amounts resulting from the violation[25].

In cases where a Person is jointly liable with a Taxable Person for Tax, penalties and other amounts due in accordance with the Unified VAT Agreement and the KSA VAT Law and its Implementing Regulations, the Authority may raise an Assessment on that Person in respect of the amounts of Tax and penalties due in relation to that violation[26]. In case of the settlement of the liability by one of the Persons, it automatically extinguishes liability for the other.

[25] Article 43, Unified VAT Agreement

[26] Article 67, Implementing Regulations

Example (4):

The Green House Ltd., a construction company established in Jeddah, submitted false VAT returns. The Green House Ltd. has contracted an external accountant to assist with the submission of its VAT returns. It becomes clear to the Authority that the external accountant willfully participates in the submission of false VAT returns for The Green House Ltd., as this is being discussed in email correspondence between The Green House Ltd. and the accountant. On 31 March 2020, the Authority raised an Assessment for SAR 100,000 and also imposed a penalty for the same amount of VAT due of SAR 100,000. The Green House Ltd. makes a payment of SAR 80,000 on 15 April 2020 and does not have the financial position to pay any other amount. On 31 May 2020, the Authority raised an Assessment on the external accountant for the joint liability incumbent on it of the remaining amount of SAR 120,000. This is an obligation which is enforceable against the Accountant, but The Green House Ltd. remains liable to pay its outstanding amount. On 6 June 2020, and before the external accountant makes the payment, The Green House Ltd. obtains further funds and makes a payment of SAR 120,000 to the Authority. The payment of the remaining amount by The Green House Ltd. cancels the joint liability of the accountant for this amount. The Authority issues a notification cancelling the joint liability Assessment. Note that despite the joint liability being extinguished, the Authority remains able to impose individual penalties on the Accountant in its own name for its intentional conduct.

5. Taxpayer Correction of Returns

5.1. Overstatement of Net Tax Due

In cases where a Taxable Person becomes aware of an error or an incorrect amount in a filed Tax Return and this has resulted in discovering an overstated amount in the original VAT Return that was submitted to the Authority, the Taxable Person may correct that error in a subsequent Tax Return within the prescribed period for the adjustment[27]. The correction of overstated Net Tax in a subsequent Tax Return only adjusts the Net Tax in the Tax Period in which the correction is made to reflect the net amounts due to/in favor of the Taxable Person after an adjustment is made to the amounts due to it. The original tax Assessment for the period in which the tax was overstated is not changed.

5.1.1. How to Correct the Tax Overstatement

The Taxable Person can make the correction at any later time by including the correction in a subsequent Tax Return. Overstatements of Net Tax due less than SAR 15,000 may be recorded in field 14 of the subsequent Tax Return. If the overstated Net Tax due exceeds SAR 15,000, the Taxable Person may make appropriate correction(s) in the subsequent Tax Return through adjustment of Tax amounts in the fields corresponding to the field(s) that was (were) erroneously completed in the original VAT Return, in the Adjustment column, for the purpose of reaching the following:

- the amount of Tax due in the current Tax Period is reduced and/or
- the amount of Input Tax is increased by the amount reported by means of error in a previous VAT return.

[27] Article 63(2), Implementing Regulationss

It is to be noted that there is no formal requirement to notify ZATCA of an overstatement of Net Tax. The Taxable Person does not have the right to make corrections related to a Tax Period after a period of five years has passed from the end of the calendar year to which the Tax Period belongs, where the Net Tax due was overstated[28].

Example (5):

Ali Hussain is a European law expert who now resides in the KSA. He provides consultancy services to both KSA and European businesses from his office in Jeddah which is registered in VAT. Ali submits quarterly VAT Returns. In March 2021, Ali provides services to European Trading Company (ETC Ltd) established in London (United Kingdom) and raises an invoice of SAR 10,000 with 0% VAT and has submitted the VAT Return in April 2021.

Due to an error in recording the VAT code in his electronic system, he reports 5% VAT instead of 0% VAT – SAR 1,500 – as Output Tax on this supply in the VAT return for the services provided to ETC Ltd. In July 2021, Ali Hussain found out his mistake. Ali Hussain corrects the omission by reducing the amount of (Net) Tax due by SAR 1,500 in Field 14 of the Tax Return for the third quarter of 2021. Ali Hussain keeps track of this error and its correction in his records.

Example (6):

Assuming the same fact pattern as example 5, but the relevant invoice was issued by Ali Hussain for an amount of SAR 120,000 (and this had been included as a standard rated supply with VAT = SAR 18,000, instead of a zero-rated supply). The correct method to correct this error in the third quarter return would be to make a negative adjustment of SAR 120,000 to "Box 1: Standard rated domestic sales"; and to make a positive adjustment of SAR 120,000 to "Box 4: Exports". These adjustments will result in the correct reduction to Net Tax of SAR 18,000 in the third quarter return.

[28] Article 63(5), Implementing Regulations

5.1.2. Required Information and Records to Substantiate the Validity of the Adjustment

Taxable Persons are required to retain all relevant documents and records to evidence the adjustment made and provide these to the Authority in the event of an examination or based on a request from an officer of the Authority.

5.2. Understatement of Net Tax Due

In cases where a Taxable Person becomes aware of an error or an incorrect amount in a Tax Return filed to the Authority, a Taxable Person must correct a previous Assessment if an error has been discovered in the original VAT Return, which has resulted in an understatement of Net Tax Due (i.e., Declaration of understated Output VAT or overstated Input VAT)[29].

5.2.1. How to notify the Authority and correct the understatement

The Taxable Person must notify the Authority within twenty (20) days of becoming aware of the error or incorrect amount in his original Assessment (Tax Return) which was submitted to the Authority. This notification can be done by submitting an electronic correction of the previous Tax Return for the period(s) to which the Assessments being corrected relate. The electronic correction is performed through the taxpayer's portal. The correction of the understated Net Tax that was declared is made through adjustment of the original Tax Return of the Tax Period in which the incorrect Assessment of the Net Tax due has taken place and therefore changes the original tax Assessment (Tax Return) for which the tax was understated.

[29] Article 63(1), Implementing Regulations

Example (7):

Abdullah works as an independent landscaping architect and is engaged by the city of Khobar to design a city park. Abdullah is registered for VAT and submits VAT returns on a quarterly basis. For the period covering the three months to June 2022, Abdullah issued an invoice to the responsible party in Khobar Municipality for the amount of SAR 1,150,000 (including VAT). In the corresponding Tax Return for the second quarter of 2022, Abdullah should have reported an amount of Output Tax of SAR 150,000. However, due to a data entry error, the amount of Output Tax that was mistakenly reported was SAR 50,000. Abdullah becomes aware of the error on 1 September 2022 when verifying its VAT balances for the previous months. Abdullah immediately notifies the Authority (on 1 September 2022) by submitting an electronic correction to the Tax Return of the previous Tax Period via the portal of the Authority.

5.2.2. Required Information and Records to Substantiate the Validity of the Adjustment

The Taxable Person is required to specify the following information when a correction is being made, and to keep the supporting documents related to the correct Net Tax due[30]:

- The Tax Period or Tax Periods to which the Assessment being corrected relates;
- The amount of Output Tax and Input Tax being corrected in respect of each Tax Period;
- The reason for the error or incorrect information in the previous Assessment.

[30] Article 63(5), Implementing Regulation

5.2.3. Issuance of a new Assessment to Replace the Original Assessment

Following the electronic correction made by the Taxable Person of the original Tax Return due to the discovered errors, the Authority will issue a new Assessment, based on the corrected amount. The Authority will notify the Taxable Person that a new Assessment is issued. There will also be a new payment due date for the difference owed to the Authority on the basis of the new Assessment. The Authority will also calculate or update any penalties or fines due based on the new Assessment amount[31].

In case the Taxable Person has discovered unintentional errors that lead to Net Tax due to the Authority being incorrectly calculated, resulting in Tax differences in favor of the Authority, and those errors are discovered after five years from the end of the calendar year, the Authority may, after the expiry of this period, conduct an audit and assessment of any tax return, provided that the Taxable Person agrees[32]. However, the Taxable Person is allowed to declare these Tax differences in any subsequent VAT Return with no penalty being imposed. In all cases, the Taxable Person must inform the Authority of the discovered error by any means specified by the Authority.

5.3. Low Value Understatements of Net Tax

An error resulting in a Net Tax understatement of less than SAR 15,000 may be corrected in the next Tax Return[33]. The error is corrected by manually entering the understatement of Net Tax due in the next Tax Return.

[31] Article 64, Implementing Regulations

[32] Article 64 (10)

[33] Article 63(3), Implementing Regulations

A "zero" adjustment, resulting in no overstatement or understatement of Net Tax due, does not require any entry to the subsequent Tax Return; however, it is preferred to do that for the purpose of validating the correctness of the overall data of the Taxable Person.

Example (8):

A Taxable Person overstates the value of zero-rated purchases in Box 10 of the Tax Return filed with the Authority. This error does not result in any overstatement or understatement of Net Tax due. The Taxable Person is not obligated to adjust the Tax Return following the Tax Return which was mistakenly filled out, but it could still make an adjustment to the subsequent Tax Return in order to ensure the correctness of the overall data provided to the Authority.

5.3.1. Correction of Multiple Errors Related to the Net Tax Due of Previously Submitted Tax Returns

The possibility of correcting errors via the above-mentioned mechanisms applies to the following circumstances:

- individual errors which result in an understatement of Net Tax due to the Authority of less than SAR 15,000; or
- multiple errors that result in an understatement of the overall Net Tax Due to the Authority which is less than SAR 15,000.

An understatement of the Net Tax due to the Authority exceeding SAR 15,000 can therefore not be "offset" with any Tax payable to the Taxable Person due to a separate error resulting in an overstatement of Net Tax Due for the same Tax Period.

Example (9):

In a review of its regular VAT returns already submitted to the Authority during the previous period, a KSA Taxable Person (Al Hayat Ltd.) discovers that it has submitted incorrect information in relation to the January 2024 Return, where it has mistakenly omitted to report an amount of Output VAT of SAR 6,000.

The review also shows that there is a separate error in the previously reported Input VAT, where Al Hayat Ltd. forgot to claim an amount of Input VAT of SAR 2,000 (KSA VAT charged for goods purchased in January 2024 from a KSA supplier). Al Hayat Ltd. cannot offset the two errors by reporting a net understatement of SAR 4,000 (SAR 6,000 understated Net Tax less SAR 2,000 under-claimed Net Tax) in the subsequent VAT Return. It must instead:

- notify the Authority of the understatement of SAR 6,000 Output VAT through a correction of the previous VAT Return (as outlined in 5.2 above); and
- deduct the non-deductible Input VAT of SAR 2,000 by correcting the subsequent VAT Return (as outlined in 5.1 above).

5.4. Correction of a Single Error Repeated in Multiple Tax Periods

In case a Taxable Person discovers a Tax error that is repeated in multiple Tax Periods, and the wrongfully reported Net Tax exceeds SAR 15,000 for each Tax Period, the correction of such error must be carried out as a correction to each affected Tax Period separately from the other Tax Periods.

A formal notification must be submitted with respect to any Tax Periods with understatements of Net Tax of SAR 15,000 or more, within twenty (20) days of the Taxable Person becoming aware of the error.

A Taxable Person may submit separate notifications for each Tax Period, or a single notification that covers multiple Tax Periods. However, the notification to the Authority must clearly disclose which Tax Periods are affected by the error and the corresponding amount of Net Tax for each individual Tax Period[34].

Example (10):

Al-Awa'el Co, a VAT-registered Company in the KSA, provides financial services in the Kingdom. The services provided by the Company include both VAT-exempt and VAT-taxable services. It has configured an electronic bookkeeping system to match the VAT implementation by assigning a specific tax code for each taxable or exempted activity, and implemented this since 1 January 2024. Al-Awa'el Co files quarterly KSA VAT Returns.

On 15 August 2024, Al-Awa'el Co became aware of an error in the electronic bookkeeping system, whereby it had not applied VAT on administration fees that were charged to KSA-established customers. The administration fees are explicit and standard rated fee-based services.

In the months from January to March 2018, the total value of the fees was SAR 30,000 per month. In the period from April to June 2024 the total value was SAR 25,000 per month. After discovering the error, Al-Awa'el Co charges additional amounts to its customers for the Tax that was not calculated, but it must also notify the Authority that its Assessments for the first and second quarters of 2024 were not correct and must self-correct the repeated error in the previous Tax Periods.

[34] Article 63(5), Implementing Regulations

Al-Awa'el Co must correct each of the quarterly returns separately by correcting the discovered errors within 20 days of discovering the error (i.e., on or before 4 September 2024).

Month	Fees (excluding VAT)	Understatement of Output VAT
January	SAR 30,000	SAR 4,500
February	SAR 30,000	SAR 4,500
March	SAR 30,000	SAR 4,500
Total Tax differences, quarter ended 31 March		**SAR 13,500**
April	SAR 25,000	SAR 3,750
May	SAR 25,000	SAR 3,750
June	SAR 25,000	SAR 3.750
Total Tax differences, quarter ended 30 June		**SAR 11,250**

6. Examinations by the Authority

An examination is a formal audit of the compliance of a Taxable Person with its VAT obligations, which can be carried out by the Authority at the Taxable Person's premises or the Authority's premises or any other location specified by the Authority[35].

The Authority may also make requests for information or documents from a Taxable Person outside of the formal examination procedures of the VAT Returns, which need to be submitted to the Authority. In such cases, the Taxable Person must also provide the Authority with any information requested by the Authority for the purposes of establishing whether that Person is complying fully with its Tax obligations[36].

6.1 Notifying the Taxable Person of an Examination

The Authority will carry out examinations via a combination of on-site and off-site audits. Taxable Persons are required by law to cooperate with an examination carried out by the Authority[37].

In most cases, the Authority will provide prior notice to the Taxable Person (of at least 20 days) before an examination takes place. In certain cases, where the Authority has reasonable reasons to suspect violation of any provision of the VAT Law or Regulations, or refusal or probable refusal of the Taxable Person to cooperate with the Authority for the purpose of finalizing the examination procedures, the Authority may carry out an examination without prior notice[38].

6.2 What to Expect during a Standard Audit

The Authority will issue an advance notice, which will advise that an on-site examination is intended, detail of information and documents requested and, where applicable, advise on the particular tax periods that are going to be reviewed.

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[35] Article 64, Implementing Regulations

[36] Article 56 (1), Implementing Regulations

[37] Article 64(6), Implementing Regulations

[38] Article 64(6)(b), Implementing Regulations

6.2.1. Examination on the Premises of the Taxable Person

In case of an examination taking place at the premises of the Taxable Person, the examination will be carried out during the working hours of the Taxable Person, subject to the examination. All invoices, books, records, and accounting or Tax-related documents which the Taxable Person is obliged to keep, should be made available to be examined by the Authority upon request both on the premises of the Taxable Person and off the premises of the Taxable Person[39].

Please refer to the Invoicing and Records Guideline for more details on the required documents forming part of the records for VAT.

6.2.2. Transfer of Documents

When the Authority's officers need to examine documents off the premises of the Taxable Person and transfer documents for this purpose, the Taxable Person will be provided with a receipt for the transferred documents[40].

6.2.3. Failure to Provide Requested Information

When a Taxable Person fails to provide the requested information, the Authority may take additional measures to obtain relevant documents and may temporarily seize such documents if there is reason to believe that the documents may otherwise be hidden, damaged or tampered with by the Taxable Person. The Authority has also the right to impose fines in cases where the Taxable Person prevents or obstructs the employees of the Authority from performing their duties, or refrains from submitting the documents and information requested by the Authority, and in cases where a violation is suspected, the Authority may carry out a search of the premises of the Taxable Person and collect evidence in respect of that violation or tax evasion[41].

[39] Article 64(6)(c), Implementing Regulations

[40] AArticle 64(6)(d), Implementing Regulations

[41] Article 64(9), Implementing Regulations

6.2.4. Procedures during Examination

During an examination, the Taxable Person itself (if a natural person) or its key employees, and any persons with responsibility for VAT reporting should be available for discussions with officers of the Authority involved in the examination. Officers of the Authority may visit any premises of the Taxable Person to verify the activities carried out and entries in a computerized accounting system by the Taxable Person[42]. The officer of the Authority can request the Taxable Person to provide him with a physical or electronic copy of any document relevant for VAT compliance of the Taxable Person under examination which are stored on a computer system or electronically[43].

6.2.5. Additional Records

The Authority shall at all times reserve the right to require additional records to be provided by a Taxable Person for an examination in cases where the Authority considers it necessary and has a justifiable reason for requiring such additional records. Where applicable, the Authority will notify the Taxable Person that it requires such additional records or information and shall allow the Taxable Person to submit the additional records or information within During the agreed-upon period[44].

6.3. Completion of the Examination

On completion of the examination, the Authority may take one or more actions.

[42] Article 64(7), Implementing Regulations

[43] Article 64(8), Implementing Regulations

[44] Article 66(6), Implementing Regulations

6.3.1. Assessment in Respect of any Tax Period

The Authority may assess the VAT obligations of a Person in respect of one or more Tax Periods[45]. An Assessment issued by the Authority shall, at a minimum, show the Net Tax payable after the assessment, the due date for payment, and the basis for calculation of the Assessment[46]. For further details with respect to the issuance of an Assessment by the Authority, please refer to Section 4.4 of this Guideline.

6.3.2. Penalty in Respect of an Incorrect VAT Return or Other Violation

Upon completion of the examination, the Authority may issue a penalty to the Taxable Person on the basis of the conclusion that an incorrect VAT return was filed or any other violations by the Taxable Person were discovered. For further details with respect to penalties, please refer to Section 10 of this Guideline.

6.3.3. Direction to Apply Correct VAT Treatment in Future Practice

Based on the findings of the examination, the Authority may issue a direction to the Taxable Person in respect of future practice for applying VAT correctly to its activities (e.g., correction of the proportional deduction method for attributing input VAT to taxable or exempt activities).

6.3.4. Request the Registration or Cancellation of Registration of a Taxable Person

If the Authority concludes, upon completion of the examination, that a person not registered for VAT should be registered for VAT purposes in the KSA, the Authority may either register such Person without submitting any application or request the person to apply for registration. Alternatively, the Authority may cancel the registration of a Person who does not fulfil the registration requirements anymore. For further details with respect to Registration, please refer to Section 3 of this Guideline.

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[45] Article 64(1), Implementing Regulations

[46] Article 64(2), Implementing Regulations

6.3.5. Notification of Completion and Conclusions of the Examination without Further Formal Action

If the Authority is of the opinion that no further action is required upon completion of the examination, the Authority may send the Taxable Person a notification that the examination has been completed and no VAT differences exist or no further formal action is pursued.

6.4. Examination of Electronic Records

A Taxable Person may choose to keep its records either physically or electronically (or a combination of both). In cases where the Taxable Person opts to store the books and records electronically, the computer system or server must be physically located in the KSA.

A Taxable Person who has a fixed establishment in the KSA may have its central computer or server outside the KSA. However, for examination purposes, it is in that case required that the Taxable Person has a terminal at its establishment in the KSA through which all data and entries regarding the VAT accounting of the fixed establishment can be accessed.

As stated above, the Taxable Person must provide employees of the Authority with hard copies or electronic files if requested during an examination.

Please refer to the separate Invoicing and Records Guideline for more details on the requirements for (access to) Electronic Records. The Authority can also request to review electronically the systems and programs applied by the Taxable Person to prepare its computerized accounts[47].

[47] Article 66(3), Implementing Regulations

7. Obtaining information

7.1. Requesting information

All Persons must provide the Authority with any information requested by the Authority for the purposes of establishing whether that Person is complying fully with its Tax obligations, whether these requests occur during a formal examination or at any other time[48].

7.1.1. Access to information held by third parties

The Authority may access relevant information held by third parties directly from those parties, including requiring direct access to records generally on an ongoing basis[49]. The third parties to which this applies are limited to government entities, banks, and other financial institutions regulated in the Kingdom by the Saudi Arabian Monetary Authority or the Capital Market Authority[50].

7.1.2. Timelimit to Provide Requested Information

Generally, the Authority will undertake to allow twenty (20) days to provide any requested information. In exceptional circumstances (e.g., in case of suspected fraudulent activity, or risk to documents being lost or destroyed), the Authority may require information within a shorter time period.

7.2. Confidentiality of information

The Authority undertakes to keep information provided about Taxable Persons and other Persons confidential. The Authority may only disclose tax information received in an official capacity in the following situations[51]:

[48] Article 56(1), Implementing Regulations

[49] Article 56(2), Implementing Regulations

[50] Article 56(3), Implementing Regulations

[51] Article 55(1), Implementing Regulations

- Disclosure is required by any court order, Law or Implementing Regulations, or other governing rules applicable in the KSA;
- Disclosure is necessary for the exercise of the duties and powers vested in the Authority under the following conditions:
    a. The disclosure is made to another employee of the Authority acting in their official capacity, or to the Customs Department, the General Audit Bureau, a tribunal or court, or a tax authority of a foreign country in accordance with any treaty or agreement to which KSA is a party.
    b. The employee of the Authority is carrying out those powers on the instructions of the Authority and is authorized to do so.
    c. The disclosure of Tax information is not excessive compared to the purpose of the disclosure, having regard to the personal or commercial impact of the disclosure.
    d. The Tax information is not retained for longer than necessary for the disclosure.
    e. The confidential information that is disclosed is stored in an adequate and protected manner, and takes all measures prescribed by the Authority against unlawful or unauthorized distribution, loss, destruction, or damage of the confidential information.
    f. Before the disclosure, the person to whom the disclosure is made is made aware of the confidentiality of the Tax Information and of the confidentiality requirements stated in the Law.
- The Authority may disclose Tax information of a Taxable Person to another Person upon the written consent of that Taxable Person.

8. Objecting to an Assessment Issued by the Authority

If a Taxable Person disagrees with a decision issued by the Authority, the Taxable Person has the right to formally object to the Authority's decisions (within the statutory deadlines noted in this section). There are three avenues established for Taxable Persons to request a review (object), challenge, and resolve a dispute relating to an assessment or other decisions of the Authority in relation to a VAT matter:

- Internal review by the Objections Department of the Authority.
- An Internal Dispute Settlement Committee.
- Appeals filed to external committees: the VAT First Instance Committee (also known as the Separation of Violations and Tax Disputes Committee) and the VAT Appeals Committee (also known as the Appeals Committee for Violations and Disputes)[52].

8.1. Objecting to an Assessment

In case of an Assessment of the Taxable Person's obligations made by the Authority, the Taxable Person will be notified of its right to object to the Authority's decision by submitting an Objection to the competent department, also known as a VAT Review Request. The Objection must be filed through the ERAD portal of the Authority.

An Objection must be made within thirty (60) days of the date on which the Assessment notification is issued, as shown on the notification. A VAT Review Request must include at least the points under dispute and the reasons for objecting on the Authority's decision, in addition to the relevant supporting documents. The Assessment will be final if no Objection is made within this time period[53].

[52] Royal Decree No. M/113.

[53] Article 68, Implementing Regulations and Article 66, Objection and Appeal, Income Tax Law (as amended by Royal Decree M/113).

8.1.1. Security

The Authority may require a cash security or bank guarantee from the Taxable Person up to a maximum value of the unpaid amount of Tax and associated penalties arising in connection with the decision. The Taxable Person will receive a notification that a cash security or a bank guarantee is required[54].

8.1.2. Internal Review

The Authority starts the review process after receiving the objection that was submitted within the statutory period of sixty (60) days. The Review and Objections Department undertakes to carry out the internal review procedure and to reply to the Objection submitted by the Taxable Person within 90 days. The review process will either result in:

- Accepting the Objection in full: a reassessment will be issued by the Authority.
- Objection is partly accepted: a reassessment will be issued by the Authority to the extent applicable.
- Objection is rejected in full: a notification of rejection will be sent to the Taxable Person with regard to its objection to the Authority's prior decision.

In the case of a rejection or partial acceptance, the Authority or the Taxable Person may propose to involve the Internal Dispute Settlement Committee to resolve the dispute (see Section 8.2). Meanwhile, the Taxable Person should still submit the request for appeal at the General Secretariat of the Tax Committees ("GSTC") within 30 days from the date of issuance of the Review and Objections Department's decision to preserve its right to pursue a formal appeal against the ZATCA decision before the VAT First Instance Committee (see Section 8.3 of this guideline).

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[54] Article 65(2), Implementing Regulations

8.2. Internal Dispute Settlement Committee

The Authority has established an Internal Dispute Settlement Committee ("Settlement Committee") to facilitate the settlement of Tax disputes, including VAT[55].

The Settlement Committee shall be responsible for dispute resolution between the Authority and the Taxable Person. The Settlement Committee can provide dispute resolution as an alternative to a formal Appeal made to the VAT First Instance Committee and the VAT Appeals Committee, which are both considered as the competent judicial authorities to look into the Tax disputes.

The Taxable Person may request the Settlement Committee to review the decision of the Review and Objections Department. The Authority itself may request a review from the Settlement Committee in cases where the Taxable Person has filed an appeal to the VAT First Instance Committee.

The request for resolution needs to be submitted to the Settlement Committee using the taxpayer ERAD portal and will include at least the points under dispute, reasons for disagreement with the Authority's decision, and any relevant supporting documents to support the Taxable Person's standpoint.

The request for resolution by the Settlement Committee suspends the formal progress of any appeal made to the VAT First Instance Committee until the resolution is rejected or closed.

The Settlement Committee shall inform the Taxable Person within 10 days of the date of submission if the request to resolve the matter through the Settlement Committee is accepted or rejected.

[55] Ministerial Resolution No. 2753 dated 14/8/1439H (30 April 2018)

8.2.1. Settlement Committee Process

If the request for resolution is accepted, a meeting will be organized to review the case involving the Taxable Person (and its representatives, where applicable). Following the meeting, the Settlement Committee shall make a decision (in standard cases, this must be within 60 days from the date the Taxable Person originally submitted a request for resolution by the Settlement Committee). However, if the Taxable Person agrees, the period to make a decision can be extended by an additional 60 days.

When making a decision on the request for resolution, the Committee will inform the Taxable Person of its settlement decision. The Taxable Person will be granted five days from the date of notification, to notify the Committee of either the acceptance or the rejection of the settlement decision.

If the settlement decision is accepted, the Taxable Person must confirm this in writing within the five-day period. After confirmation from the Taxable Person, the formal minutes with respect to the agreed settlement will be prepared to be signed by an authorized representative of the Taxable Person and the Committee. The settlement minutes will be sent to the Governor for approval.

The decision issued by the Internal Committee regarding the settlement is final and concludes the lawsuit if the taxpayer agrees to it in writing within the period specified in the settlement rules. The Authority must notify the General Secretariat of this and provide it with a copy of the decision to drop the lawsuit. If the taxpayer rejects the Internal Committee's decision or the period specified in the settlement rules expires, the lawsuit will proceed according to the procedures stipulated in the rules.

8.2.2. Rejection of Settlement

The Settlement Procedure can be rejected in three ways:

a. The Authority informs the Taxable Person that the request for Resolution is rejected.
b. The request for Resolution is accepted, but the Taxable Person does not receive a settlement decision from the Settlement Committee within 60 days of the request being filed (unless a notification for an extension of 60 days has been sent to the Taxable Person). In these cases, the request is deemed to have been rejected.
c. The settlement decision is rejected by the Taxable Person or the Taxable Person does not confirm its acceptance of the Committee's decision in writing within the five-day period.

If the Taxable Person has registered a request for appeal with the General Secretariat of the Tax Committees, which was temporarily suspended during the Settlement Committee's procedures, the formal appeal will then be resumed, and the objection will proceed before the Primary and Appellate Committees.

8.3. Appealing to the VAT First Instance Committee

The VAT Law has determined the VAT First Instance Committee and the VAT Appeals Committee to be the competent judicial authorities to which the Taxable Person may file a grievance (appeal) against the Authority's decisions in accordance with the Royal Decree No. M/113 dated 2/11/1438H, and these Committees are review bodies separate to the Authority. They are equivalent to the Preliminary Objection Committee and Higher Appeal Committees established for reviews of Income Tax matters.

A Taxable Person who wishes to appeal against the Authority's decisions (whether against the decisions issued by the Review and Objections Department in connection with the objections to the Assessments and related penalties must submit the appeal directly to the VAT First Instance Committee (the Committee on the Separation of Violations and Tax Disputes) within 30 days of the date the notification of penalties due is issued in accordance with the above-mentioned Royal Decree.

The Authority's decision or the imposed penalties are considered final in case no appeal is received against them within the specified period[56]. Further, claims in tax disputes shall not be heard after five years from the date of payment of the amount claimed or from the date of knowledge of the subject in question, unless there is an excuse acceptable to the Committee.

In case the Taxable Person or the Authority objects to the decisions of the VAT First Instance Committee, the dispute shall be moved up to the VAT Appeals Committee (Appeals Committee for Violations and Disputes), whose decisions shall be final and non-contestable before any other judicial body.

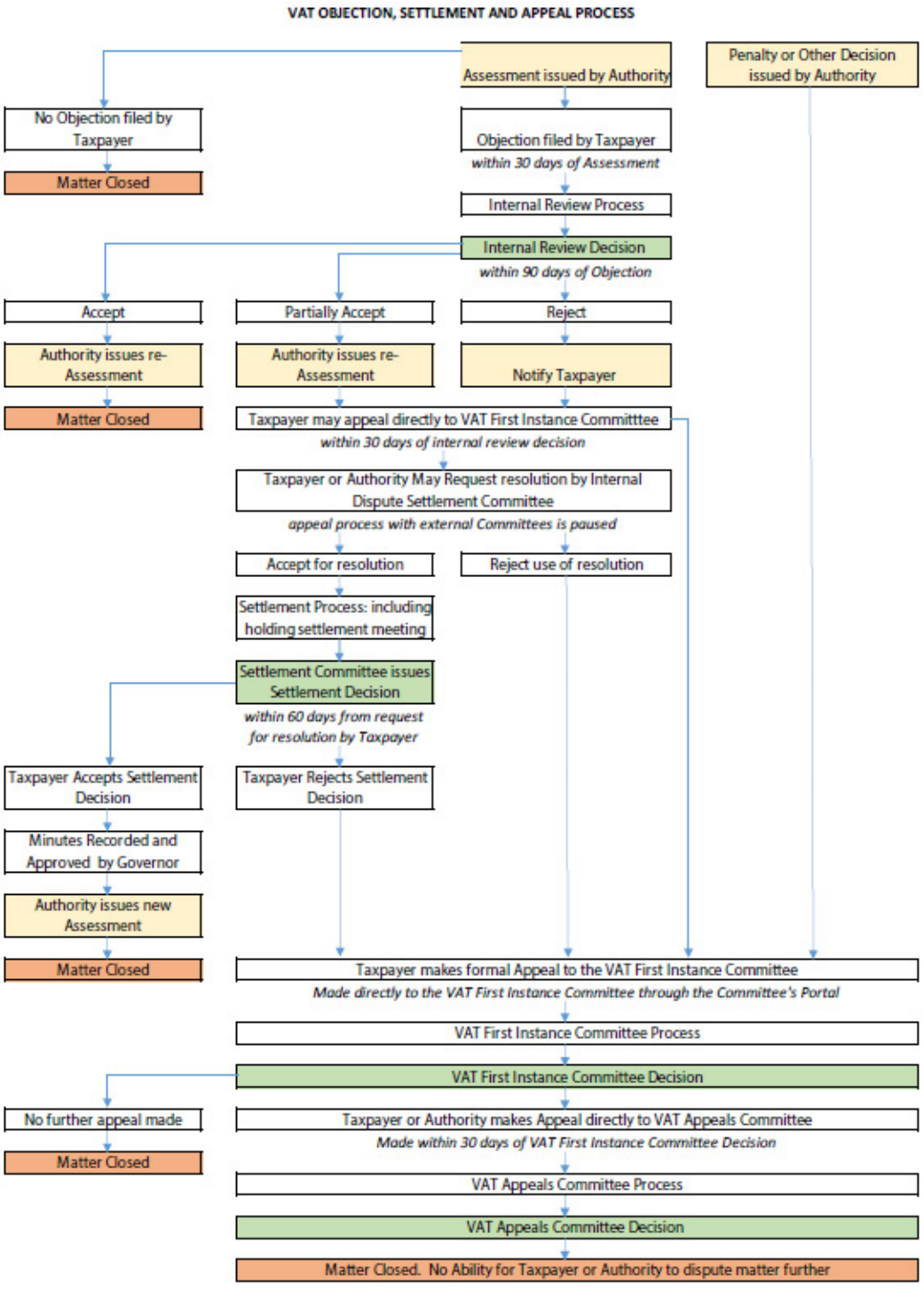
The VAT Appeals Committee will prepare the rules of work of the two Committees, which shall be published once they are approved and issued via a separate legal instrument.

[56] Article 49, VAT Law

8.4. VAT Objection Flowchart

Decision — VAT First Instance Committee Process

VAT objection flowchart



9. VAT Obligations of the Taxable Person

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

If a Taxable Person is not sure of its obligations, the Authority must be contacted through its website at zatca.gov.sa or by other means of communication, and a Taxable Person may also seek external consultation through a qualified consultant. There follows below a review of the most important tax obligations provided for in the Law and the Implementing Regulations.

9.1. Issuing Tax Invoices

A supplier must issue a Tax Invoice for each taxable supply made to any VAT-registered person or to any other legal person or to an unregistered person, by no later than fifteen days following the end of the month in which the supply is made.

The taxpayer must also issue a simplified tax invoice if the value of the supply is less than SAR 1,000. As for supplies made by taxpayers to natural persons who are not taxpayers or to any of the persons mentioned in the previous paragraph, the taxable supplier must issue a simplified invoice for those supplies. In both cases, the simplified invoice must be issued on the date of the supply or the date the consideration is received partially or fully, whichever is earlier. Notwithstanding the above, the taxpayer may issue simplified invoices no later than fifteen (15) days after the end of the month in which the supply occurred.

The Tax Invoice must clearly detail information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged[57]. If different rates have been applied to supplies, the Value of each supply at each rate must be separately specified, as well as the VAT applicable to each rate. A Tax Invoice may be issued in the form of a commercial document, provided that document contains all of the requirements for the issuing of Tax Invoices as set out in the Implementing Regulations to the Law[58].

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

For more information, please visit our website, **zatca.gov.sa**, or contact us at the unified number, **1999**.

9.2. Filing VAT Returns

Each VAT Registered Person, or the person authorised to act on its behalf, must file a VAT return with the Authority for each monthly or quarterly tax period. Section 4 of this Guideline describes these obligations in more detail.

9.3. Keeping Records

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

[57] For more details on the requirements for issuing tax invoices, refer to the Invoicing & Records Guideline and Article 53, Implementing Regulations

[58] Article 53, Implementing Regulations

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

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

All records must be kept for at least the standard retention period of 6 years. That minimum period for retention is extended to eleven (11) years in connection with invoices and records relating to movable capital assets, and fifteen (15) years in connection with invoices and records relating to non-movable capital assets[59].

9.4. Display of Certificate of Registration within the VAT Law

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

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

[59] Articles 66 and 52, Implementing Regulations

10. Penalties

The Authority may impose penalties or fines on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations.

Non-Field Fines[60]

Description of offence	Associated fine
Submitting false documents with the intent of evading the payment of the VAT due or to reduce its value	• At least the amount of the VAT due. • Not less than three times the value of the goods or services
Moving goods in or out of the KSA without paying the VAT due	• At least the amount of the VAT due. • Not less than three times the value of the goods or service
Failure to register for the VAT in the allotted timeframe	SAR 10,000
Filing an incorrect tax return, amending a tax return after submission, or filing any VAT document with the Authority resulting in a lower amount due	25% of the value of the difference between the calculated Tax and the Tax due. The Authority may increase the penalty up to 50% or reduce it to 0%
Failure to file VAT return on time	5%-25% of the VAT in respect of which the return should have been filed
Failure to pay the VAT on time	5% of the VAT due for each month or part thereof
Collecting VAT without being registered	A fine of up to SAR 100,000

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

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

[60] Chapter Sixteen: Articles (41), (42), (43), (44), and (47), Tax Evasion and Penalties, VAT Law

The penalty related to the violation of "submitting an incorrect tax return, or amending a tax return after submission, or submitting any document to the Authority concerning the tax due that resulted in an error in calculating the tax amount as less than what is due" (as shown in the table above) shall be calculated according to the following controls:

First: Penalty Increase (Aggravating Factors)

The Authority may increase the percentage of the penalty related to the violation of "submitting an incorrect tax return, or amending a tax return after submission, or submitting any document to the Authority concerning the tax due that resulted in an error in calculating the tax amount as less than what is due" to no more than (50%) of the value of the difference between the calculated tax and the tax due as a maximum limit, if one or more of the aggravating factors for the penalty apply, as follows:

1. Increase the penalty by (10%) if the error contained in the return is linked to 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. Increase the penalty by (10%) if the taxpayer's compliance record is very weak.
3. Increase the penalty by (5%) if the taxpayer's compliance record is weak.
4. Increase the penalty by (5%) if the percentage of the difference between the calculated tax and the tax due (payable or refundable), related to the total periods subject to adjustment, represents more than (20%) for returns related to monthly tax periods, or more than (40%) for returns related to quarterly tax periods.

Secondly: Penalty Reduction (Mitigating Factors)

The Authority may reduce the percentage of the penalty related to the violation of "submitting an incorrect tax return, or amending a tax return after submission, or submitting any document to the Authority concerning the tax due that resulted in an error in calculating the tax amount as less than what is due" down to zero percent (0%), if one or more of the mitigating factors for the penalty apply, as follows:

1. Reduce the penalty by (5%) if the taxpayer's compliance record is good.
2. Reduce the penalty by (5%) if the percentage of the difference between the calculated tax and the tax due (payable or refundable), related to the total periods subject to adjustment, represents less than (5%) for returns related to monthly tax periods, or less than (15%) for returns related to quarterly tax periods.
3. Reduce the penalty by (10%) when the taxpayer pays the value of the difference between the calculated tax and the tax due (which is payable) within thirty (30) days of the assessment decision issued by the Authority.
4. Reduce the penalty by (15%) when the taxpayer is classified as a micro-enterprise. For these rules, an enterprise is considered a micro-enterprise if the value of its annual taxable revenues does not exceed SAR 3,000,000 during the twelve months preceding the tax period subject to examination and assessment.
5. No more than one factor shall be combined regarding the mitigating factors mentioned above, except the factors for paying the tax due mentioned in these provisions.
6. Notwithstanding the provisions in this clause (Secondly), the penalty percentage shall not be reduced if the error contained in the return is linked to a case of tax evasion for which a decision has been issued by the Authority.

Thirdly: Provisions for Determining Taxpayer's Compliance

The Authority shall determine the level of the taxpayer's compliance based on the number of errors contained in their previous tax returns concerning the timely submission of returns and/or the timely payment of the tax due, as follows:

1. A taxpayer's compliance is considered 'good' if there have been no violations during the last twelve months.
2. A taxpayer's compliance is considered 'weak':
   - For a taxpayer who submits returns monthly, upon committing more than two violations up to six violations during the last twelve months.
   - For a taxpayer who submits returns quarterly, upon committing one or two violations during the last twelve months.
3. A taxpayer's compliance is considered 'very Weak'
   - For a taxpayer who submits returns monthly, upon committing more than six violations during the last twelve months.
   - For a taxpayer who submits returns quarterly, upon committing more than two violations during the last twelve months.

Fourthly: Cases Where the Tax Return Error Penalty is Not Imposed

The tax return error penalty shall not be imposed in the following cases:

1. When the taxpayer corrects the return in accordance with the provisions of Article 63 of the Implementing Regulations of the VAT Law, provided this is done before they are notified by the Authority of the start of examination and audit procedures.

2. If the difference between the calculated tax and the tax due is less than SAR 5,000.

Fifthly

In the event that the taxpayer corrects the return through the self-disclosure form after being notified of the start of examination and audit procedures, and if the correction exceeds fifty percent (50%) of the tax differences determined as a result of the examination and assessment, the penalty shall be reduced to ten percent (10%). If the taxpayer pays the value of the tax due and payable within thirty (30) days from the date of the assessment notification, the penalty shall be reduced to zero percent (0%).

It should be noted that, in all cases, the late payment penalty—when applicable—is calculated at (5%) of the value of the tax due for every month or part of a month.

Field Violations

All field violations, upon commission, begin with a warning and educating the violator about the violation and giving them an appropriate grace period of (30) to (60) days to rectify it, with the exception of the violation related to preventing or obstructing the Authority's employees from performing their duties and tasks. In this case, the violator is granted a period not exceeding ten (10) days from the date the last penalty was imposed to correct the violation, which will be imposed consecutively if the violator repeats its commission.

To view the classification table of general VAT violations and the specific violations and penalties related to the provisions of the E-invoicing regulation, please refer to the Guideline for the Classification of General VAT Violations.

11. Request for an Interpretative Decision (Tax Ruling)

In the event that a Person is not sure about the manner of application of VAT to a particular activity or particular transaction that it is doing or intends to do, after referring to the relevant provisions and the relevant guideline, the Person may submit an application to the Authority to obtain an interpretive decision, in accordance with the Tax Ruling Requests Guideline.



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