VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline for

Agents under VAT Provisions

Second Version | 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 (henceforth 'ZATCA')has issued this Guideline to clarify certain treatments related to the implementation of the statutory provisions in force on the date of its issuance. The content of this Guideline shall not be deemed an amendment to any of the laws and regulations in force in the Kingdom of Saudi Arabia.

The Authority affirms that it shall apply the explanatory treatments set out in this Guideline, where applicable, considering the relevant statutory provisions. If any clarification or content contained in this Guideline is amended in relation to an unchanged statutory provision, the updated explanatory treatment shall apply to transactions carried out after the date of publication of the updated version of the Guideline on the Authority's official website.

Amendment Log

#	Edition No.	Amendment Date	Section/ Item	Amendment Type	Amendment Description	Remarks
1	2	May 2026	5.3 11	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 Value Added Tax ("VAT") Law in the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia ratified the Gulf Cooperation Council Unified VAT Agreement ("GCC Unified VAT Agreement") pursuant to Royal Decree No. M/51 dated 3rd Jumada al-Awwal 1438H/30th January 2017. Based on the provisions of the GCC 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 Board of Directors Resolution of the former General Authority of Zakat and Tax (currently, the Zakat, Tax and Customs Authority) No. 3839 dated 14th Dhu al-Hijjah 1438H/4th August 2017 ("Implementing Regulations of the Law") As amended pursuant to subsequent resolutions of the Board of Directors.

1.2 Zakat, Tax and Customs Authority

Council of Ministers Resolution No. (570) dated 22nd Ramadan 1442H/4th May 2021G 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 is responsible for the collection of Zakat, taxes, and customs duties, and for achieving the highest levels of compliance among taxpayers in accordance with best practices and with high efficiency. The Authority also seeks 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 advancement to the highest levels of efficiency, productivity, and competitiveness, through the provision of high-quality services focused on the customer and delivered in accordance with best practices.

1.3 What is VAT?

VAT is an indirect tax imposed on the importation 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 collected and paid at every 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 taxes, persons subject to VAT will:

- Collect VAT from their customers on each taxable sale according to the specified percentage.
- Pay VAT to suppliers from whom they received goods or services, if any, on each taxable purchase at the specified percentage.

When persons subject to VAT sell a good or supply a service, they must charge tax at 15% (assuming the standard rate applies to those supplies), which is added to the final selling price. Persons subject to VAT must separately account for the 15% collected or due from their taxable sales, apart from their revenues, for subsequent remittance to the Authority. The VAT collected by persons subject to VAT on their sales is referred to as "Output Tax".

Similarly, purchases made by persons subject to VAT are treated as bearing VAT at 15% on goods and services acquired by persons subject to VAT (assuming the standard rate applies to those supplies), and the VAT they pay to their suppliers is referred to as "Input Tax".

1.4 This Guideline

This Guideline aims to provide explanatory information to persons subject to VAT regarding the obligations and tax implications relating to agents or any other cases in which a person acts on behalf of another person.

As this Guideline represents the Authority's view with respect to the application of the Unified VAT Agreement, the VAT Law, and the Implementing Regulations, it constitutes a guidance document and does not include all Articles and provisions relating to agents as stipulated in the Unified VAT Agreement, the VAT Law, and the Implementing Regulations.

2. Definitions of Key Terms

1. **Agent:** The term "Agent" is not defined in the statutory documents relating to VAT. An Agent means any person who represents another person in legal transactions.

2. **Principal (Mandator):** The term is not defined in the VAT Law; however, For the purposes of this Guideline, the Principal means the person represented by another person (the Agent) in legal transactions.

3. **Agent Acting in the Name of the Principal:** This is a disclosed Agent. The term is not defined in the VAT Law; however, For the purposes of this Guideline an Agent is considered to be acting in the name of the Principal where the agency relationship is disclosed to a third party.

4. **Agent Acting in His Own Name:** This is an undisclosed Agent. The term is not defined in the VAT Law; however, For the purposes of this Guideline an Agent is considered to be acting in his own name where the agency relationship is not apparent to third parties or where the identity of the Principal is not disclosed to them. The VAT Law has stipulated specific rules regarding cases in which an Agent acts in his own name. An undisclosed Agent is sometimes referred to as an "Undisclosed Agent" or a Commission Agent.

5. **Supplier:** "The person who supplies goods or services[1]."

6. **Customer:** "The person who receives goods or services[2]."

7. **Main Supply:** Although this term is not defined in the statutory documents relating to VAT, it is used for the purposes of this Guideline to refer to goods or services supplied by the seller (Supplier) and received by the Customer.

(1) Article 1, GCC Unified VAT Agreement

(2) Article 1, GCC Unified VAT Agreement

8. **Seller:** The term "Seller" is used in this Guideline to mean the person who makes the Main Supply.

9. **Final Customer (of Main Goods or Services):** The term "Final Customer" is used in this Guideline to mean the person who receives the Main Supply, irrespective of whether the Final Customer is the consumer or the beneficiary of the goods or services.

10. **Importer:** For the purposes of VAT, an "Importer" is defined as the person appointed or recognized as the importer in accordance with the provisions of the Unified Customs Law[3].

11. **VAT on Import:** This term is not defined in the VAT statutory documents; however, for the purposes of this Guideline, it is used to mean the tax paid or payable on the import of goods[4].

12. **Disbursement:** This term is not defined in the VAT Law; however, it is used in this Guideline to refer to costs incurred by the Agent on behalf of the Principal and reimbursed by the Principal to the Agent.

13. **Compensation:** This term is not defined in the VAT law; however, it is used in this Guideline to refer to costs incurred by an Agent acting in his own name for which the Principal compensates the Agent.

(3) Article 42, GCC Unified VAT Agreement

(4) Article 2(3), GCC Unified VAT Agreement

3. Economic Activity and Registration for VAT Purposes

3.1 Who is a Person Carrying out an Economic Activity?

Both natural persons and legal persons may carry out an Economic Activity. Legal persons, such as "companies", shall be considered to be carrying out an Economic Activity where such persons conduct an activity on a regular and continuous basis related to the making of supplies. It should be noted that natural persons may conduct certain activities either as part of their Economic Activity or as part of their private activities. Accordingly, special rules apply in determining whether a natural person carrying out specific activities falls within the scope of persons subject to VAT.

All persons, whether natural or legal, who carry on an Economic Activity for the purpose of generating income are required to register for VAT purposes where the value of their taxable supplies during any 12-month period exceeds, or is expected to exceed, the mandatory registration threshold. Such persons must collect the VAT applicable to supplies made in the course of carrying out the Economic Activity and remit the collected tax to the Authority.

3.2 Mandatory Registration

Registration is mandatory for all persons independently carrying out an Economic Activity whose value of taxable supplies during any 12-month period exceeds SAR 375,000 ("Mandatory Registration Threshold"). Such persons must register for VAT purposes[5], subject to the transitional provisions stipulated in the Implementing Regulations related to the Mandatory Registration Threshold during the transitional period.

For the purposes of calculating the value of supplies in determining the registration threshold, the following supplies shall not be included:

- Exempt supplies: such as qualifying financial services or qualifying residential rent exempt from VAT.

(5) Article 3, Implementing Regulations

- Supplies that are outside the scope of VAT in any Member State of the Gulf Cooperation Council.
- Proceeds from the sale of capital assets: Capital assets are defined as tangible and intangible assets forming part of the business assets and allocated for long-term use as a business tool or means of investment[6].

Additional provisions apply for the purposes of Mandatory Registration in certain cases:

- Non-resident persons who are obligated to collect and pay VAT in respect of supplies made or received in the Kingdom of Saudi Arabia must register for VAT purposes regardless of the value of the supplies for which they are obligated to collect and pay VAT[7].

3.3 Voluntary Registration

A person resident in the Kingdom of Saudi Arabia whose value of taxable supplies or taxable expenses exceeds SAR 187,500 ("Voluntary Registration Threshold") during any 12-month period may voluntarily register with the Authority for VAT purposes[8].

Voluntary registration may be preferable where a person who is not required to register wishes to recover the VAT incurred on supplies received prior to issuing invoices or making a subsequent supply.

(6) Article 1, GCC Unified VAT Agreement

(7) Article 5(1), Implementing Regulations

(8) Article 7, Implementing Regulations

4. Agency

4.1 Concept of Agency for VAT Purposes

In accordance with the GCC Unified VAT Agreement, VAT is imposed on taxable supplies of goods or services made by a Supplier to a Customer. The Agreement does not explicitly specify how VAT is to be applied in cases where an Agent acts on behalf of a Supplier or a Customer in relation to such supply.

For the purposes of this Guideline, the Authority considers that an agency relationship arises in any case where the Principal authorizes the Agent to:

- Act on behalf of the Principal; and
- Perform acts that give rise to legal obligations on the Principal.

An Agent may act on behalf of a Supplier in making a supply of goods or services, or may act on behalf of a Customer receiving goods or services. Legal obligations arising from the acts of the Agent shall be binding on the Principal where the Agent acts pursuant to authorization granted by the Principal (or where the Principal subsequently approves the acts of the Agent).

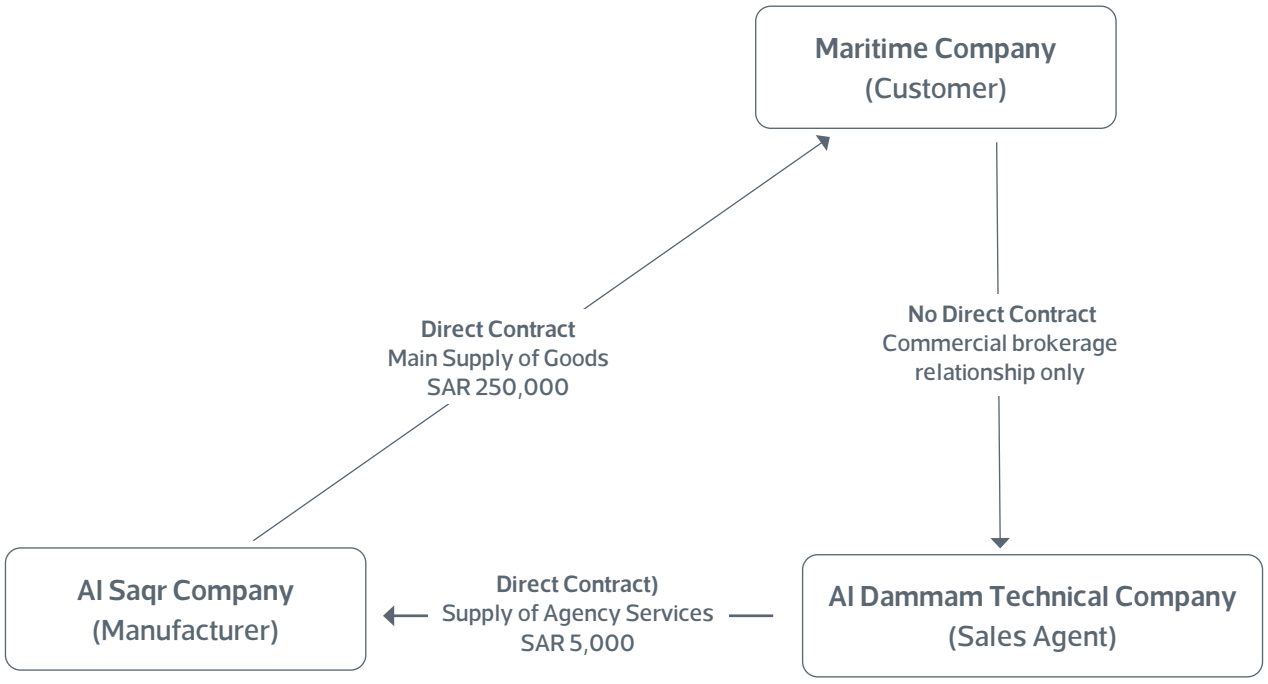
> The Agent acts on behalf of the Principal in making a supply of goods or services, or in receiving goods or services.
>
> The supply of goods or services is referred to in this Guideline as the "Main Supply" of goods or services.

The Agent provides a service to the Principal and acts on his behalf in relation to the Main Supply of goods or services. In addition, the Agent may perform other tasks, such as the storage and transportation of goods. The fees paid to the Agent for such services are often referred to as "commission" and may be calculated as a percentage of the Main Supply of goods or services.

Example (1): Al Saqr Company is a company resident in the Kingdom of Saudi Arabia and produces specialized equipment which it markets locally. The company intends to sell its equipment to the oil and gas sector in the Eastern Province and appoints Al Dammam Technical Company to promote its products in the region and to make the necessary arrangements for the sale and distribution of the products to customers. Al Saqr Company agrees to pay an annual fee in addition to a commission of 2% of any sales achieved.

Al Dammam Technical Company conducted a practical demonstration of the equipment and negotiated the conclusion of a contract for the sale of equipment valued at SAR 250,000 to Maritime Company, while Al Saqr Company and Maritime Company reviewed and concluded the contract. Al Dammam Technical Company arranged for the transportation of the goods to the premises of Maritime Company in consideration for a commission of SAR 5,000.

The following is an illustration of the relationship between the three parties. In this case, the Agent acts on behalf of the Supplier (Al Saqr Company) and assists the Supplier in making the Main Supply of goods to a third party (Maritime Company), which is the Final Customer.



For VAT purposes, the two supplies may be classified as follows:

Main Supply of Equipment: (Supplier) Al Saqr Company ⟶ (Customer) Maritime Company

Supply of Agency Services: (Supplier) Al Dammam Technical Company (acting on behalf of the Customer) ⟶ (Customer) Al Saqr Company

The VAT Law in the Kingdom of Saudi Arabia expressly stipulates specific rules governing the application of VAT in certain cases where an Agent supplies or receives goods on behalf of the Principal[9]. These rules will be discussed in Sections (5) and (6) of this Guideline.

In certain cases, a person may be described commercially as an "Agent," while in practice that person makes supplies of goods or services on his own account. In such cases, for VAT purposes, that person is considered to be making such supplies as a Principal and not as an Agent.

Example (2): Arabian Gulf Trading Group is the exclusive agent in the Kingdom of Saudi Arabia for a European automobile manufacturer. The Group entered into an agreement with the manufacturer to promote and sell vehicles within the Kingdom. The agreement stipulates that the Group shall purchase and import the vehicles into the Kingdom and then sell them directly to Saudi customers. In this case, although the Group is considered an agent of the manufacturer, it acts as a Principal in receiving the supply of vehicles from the manufacturer and subsequently supplying them to customers within the Kingdom.

4.1.1 Commercial Agencies Law

The Commercial Agencies Law governs cases in which agents act on behalf of non-Saudi companies or their representatives[10]. The scope of that Law differs from the concept of "Agent" for VAT purposes as defined in this Guideline.

(9) Article 9, VAT Law

(10) The Commercial Agencies Law issued by Royal Decree No. (11) dated 20th Safar 1382H/22nd July 1962G.

For the purposes of the Commercial Agencies Law, "commercial agencies" mean "any person who contracts with a producer or his representative in his country to carry out commercial activities, whether as an agent or distributor in any form of agency or distribution, in consideration of profit, commission, or facilities of any nature whatsoever, including maritime, air, or land transport agencies and any other agencies issued by decision of the Minister of Commerce[11] ."

If a person is considered an agent under the Commercial Agencies Law, this does not affect whether that person acts as a Principal or as an Agent for VAT purposes.

For example, under the Commercial Agencies Law, a "commercial agent" may be a distributor of, or franchisee from, a non-resident manufacturing company. However, the distributor or franchisee does not represent the non-resident manufacturing company in legal transactions (such as concluding contracts with customers in the name of the manufacturer) but instead acts in his own name as a Principal in supplying goods and services. In such cases, the commercial agent acting in this manner does not make or receive supplies of goods or services on behalf of a Principal. Accordingly, the commercial agent is not treated as an Agent for VAT purposes.

Conversely, a person may be an Agent without falling within the scope of persons governed by the Commercial Agencies Law, such as where a person represents another person resident in the Kingdom and acts on his behalf. In such cases, that person may be considered an Agent for VAT purposes if he acts on behalf of the resident Principal in making or receiving supplies of goods or services.

4.2 Principal or Agent?

In general, a person involved in facilitating a Main Supply from a Seller to a Customer may, in relation to that transaction, either:

- Act as an Agent in making a Main Supply of goods or services on behalf of a Principal; or
- Act as a Principal in receiving a supply of goods or services in his own name from the Seller and subsequently making a further supply of those goods or services to the Customer.

(11) Article 1, Implementing Regulations of the Commercial Agencies Law.

Accordingly, a person may act as an Agent in relation to certain supplies and as a Principal in relation to other supplies.

In some cases, it may be difficult to determine whether a person is acting as a Principal or as an Agent. In such cases, the agreement between the parties must be examined, and the commercial nature of the relationship must be analyzed, taking into account all other relevant factors.

In general, the following characteristics generally indicate that a person is acting as an Agent:

- The person enters into a contractual agreement on behalf of the Principal, for the Principal's account and in the Principal's interest.
- The Agent acts based on instructions from the Principal, which may be direct instructions, prior agreed authorization to carry out certain acts, or subsequent ratification by the Principal of actions taken.
- The Agent does not own the main goods and is not entitled to receive the core services in his own name.
- The Agent is unable to determine the price or other characteristics of the supply without the approval or ratification of the Principal.

In general, the following characteristics typically indicate that a person is acting as a Principal:

- The Principal conducts transactions directly with the Seller or the Final Customer in his own name and for his own interest and contracts directly with suppliers and customers.
- It is not necessary for the Principal to own the goods supplied or to participate directly in providing the service.
- The Principal has the ability to make decisions relating to his business without general authorization, and the extent to which he follows instructions from customers or complies with certain standards in performing his activities does not determine whether he is a Principal or not.
- The Principal typically bears business risks, such as those relating to payment and inventory.
- The method of payment of consideration or compensation between parties is not

determinative in establishing whether a person acts as an Agent or as a Principal. An Agent and a Principal may both receive consideration for their activities in the form of commission, for example, and this does not determine whether such persons act as Agents or Principals.

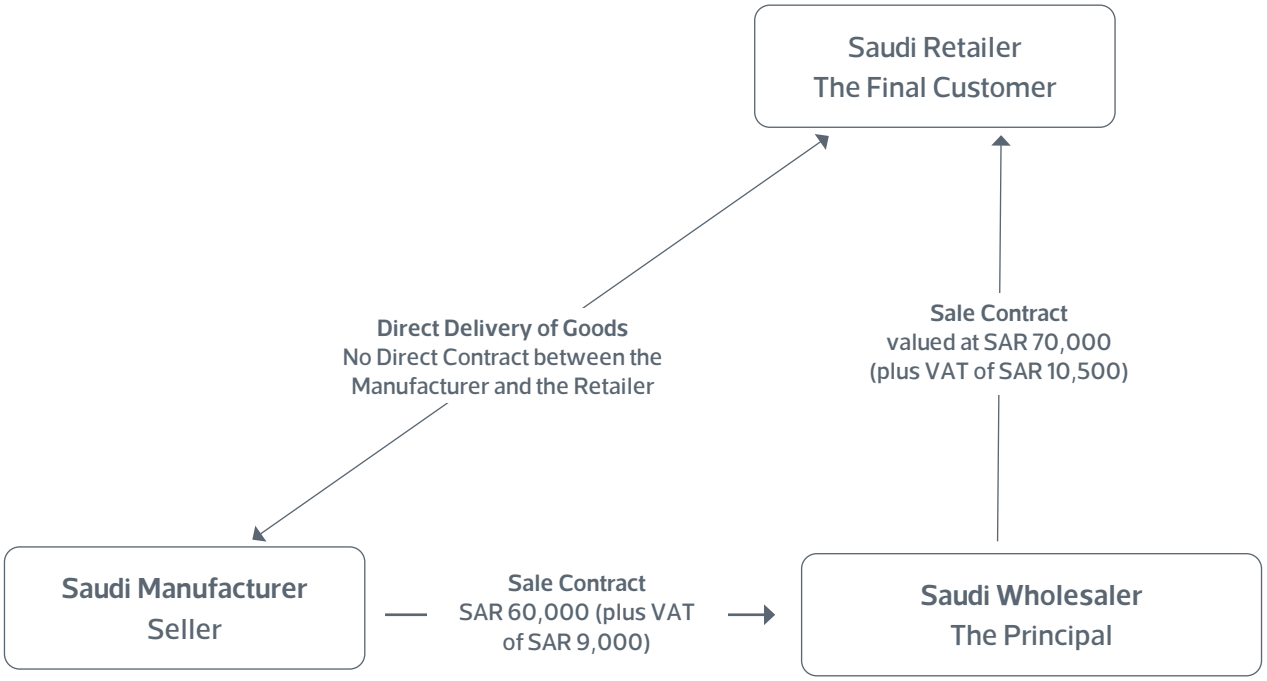
4.3 Application of VAT to Transactions Executed by a Person Acting as a Principal

The Principal himself is treated as the Supplier (in relation to a sale transaction) and as the Customer (in relation to a purchase transaction). In many cases, a single commercial arrangement may result in the Principal being considered simultaneously as both Customer and Supplier.

For example, a Principal may purchase goods or services from one person and then sell them to another person without making any material modification to the goods or services. Nevertheless, both the purchase transaction and the sale transaction are treated as separate supplies for VAT purposes.

Example (3): A wholesaler in the Kingdom agreed to purchase a stock of consumer goods from a manufacturer in the Kingdom for SAR 60,000 (plus SAR 9,000 VAT). On the same day, the wholesaler agreed to sell those goods to a retailer for SAR 70,000 (plus SAR 10,500 VAT). The wholesaler notified the manufacturer to deliver the goods directly to the retailer in the Kingdom (who will store the goods in its premises for individual sales to consumers).

In this case, although the goods are delivered only once, there are two supplies of the same goods: the first supply from the manufacturer in the Kingdom to the wholesaler in the Kingdom, and the second supply from the wholesaler in the Kingdom to the retailer in the Kingdom. The wholesaler in the Kingdom acts as a Customer in relation to the first supply and as a Supplier in relation to the second supply. Although the manufacturer physically delivers the goods to the retailer in the Kingdom, it does not make a supply of those goods to the retailer in the Kingdom.

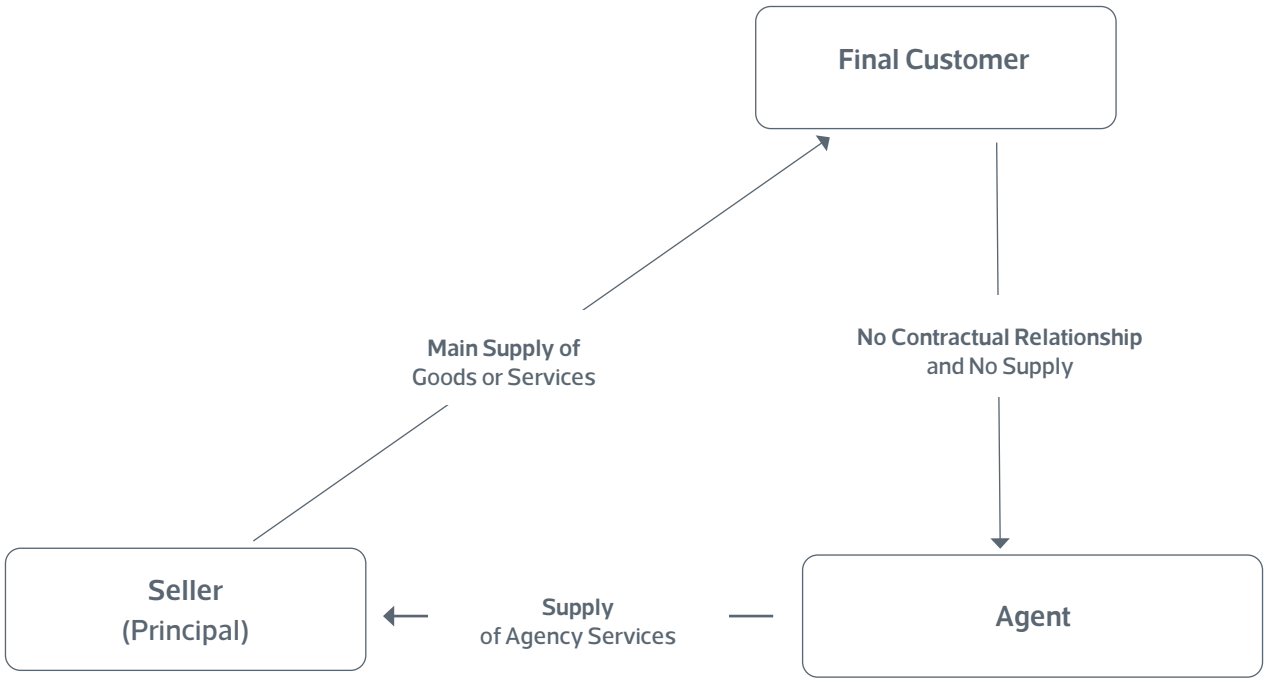


A person acting as a Principal generally realizes profit on supplies through the margin applied to the selling price. In addition, the Principal may charge consideration for services provided to the Seller or the Final Customer in relation to the value of the Main Supply. In such cases, VAT shall also apply to the separate supply of services performed.

5. VAT Treatment Where an Agent Acts on Behalf of a Principal

In the case of a disclosed Agent, the Main Supply is made directly from the Seller to the Final Customer, and the Agent may charge the Principal a specified amount for the work performed on the Principal's behalf.

The following diagram illustrates the supplies taking place for VAT purposes where the Agent acts on behalf of the Seller in his capacity as Principal in relation to the Main Supply of goods or services.



5.1 The Main Supply from the Seller to the Final Customer Directly

The Main Supply of goods or services is subject to VAT in accordance with the general rules applicable to direct supplies from the Supplier to the Customer.

Where the Principal makes the supply directly to customers, the Principal remains the person obligated to collect Output Tax on the supply and to issue a tax invoice. The Agent may issue a tax invoice on behalf of the taxable Principal, subject to the fulfillment of specified conditions[12] (Please refer to Section 11 of this Guideline and the Tax Invoices Guideline). In such cases, the Principal is responsible for the accuracy of the information contained in the tax invoice and for declaring the Output Tax in respect of the supply.

The Final Customer receives the Main Supply directly from the Principal and therefore becomes eligible to claim a deduction, provided that the VAT has been incurred as part of the Customer's Economic Activity in the course of making taxable supplies. (Please refer to Section 10 of this Guideline for further information regarding the deduction of Input Tax.)

The Agent may perform certain tasks to facilitate the sale process, such as delivering goods, issuing invoices, or collecting payments, provided that the Agent acts in the name of the Principal (and that the agency relationship is disclosed to third parties). Accordingly, the performance of such tasks by the Agent does not affect the applicable VAT treatment.

5.2 Supply of Agency Services from the Agent to the Principal

An Agent may agree to act in the name of (and on behalf of) either the Seller or the Final Customer.

The Agent receives a commission or other remuneration in consideration for performing such services. This constitutes a separate supply of services distinct from the Main Supply arranged by the Agent on behalf of the Principal. In respect of this supply, the Agent acts as the Supplier and the Principal as the Customer.

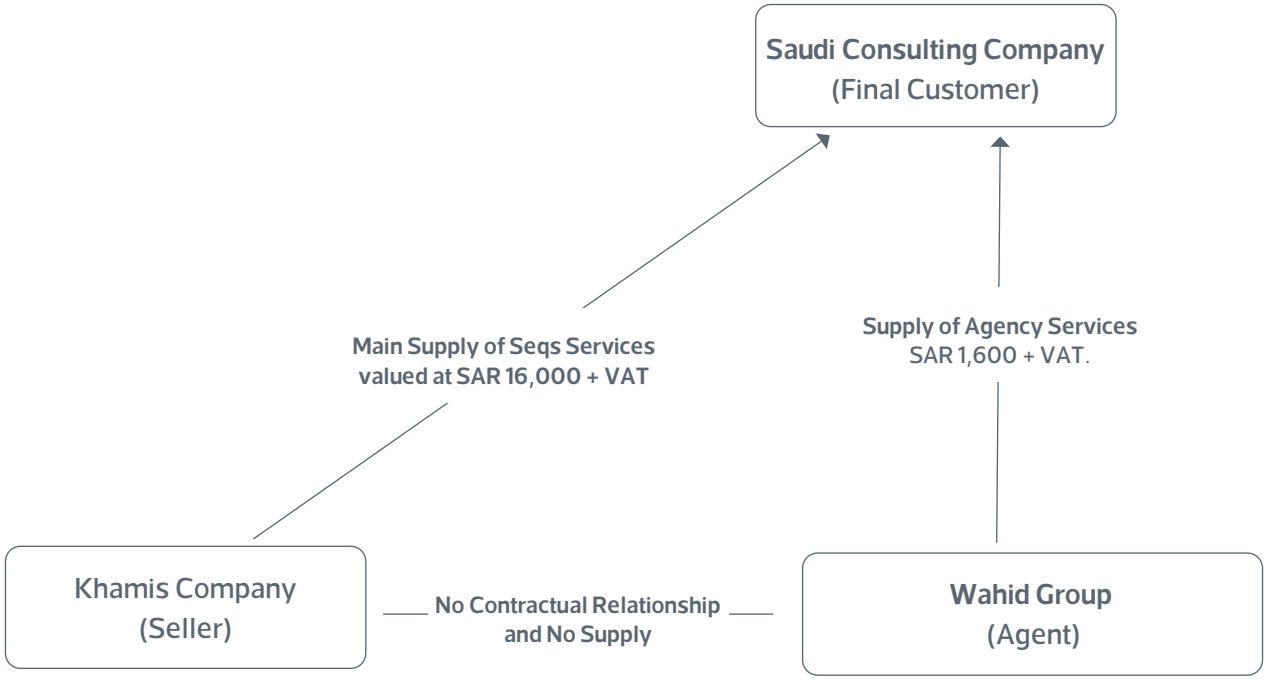
(12) Article 53(3), Implementing Regulations

Example (4): A consulting company in the Kingdom seeks to appoint a specialist expert in Islamic finance to complete a project. The company requested Wahid Group, a specialized agency, to identify a suitable local firm. Wahid Group recommended Khamis Company to perform the work, and Khamis Company submitted a quotation for its services for SAR 16,000 (plus SAR 2,400 VAT). Wahid Group charged a commission of 10% for the referral.

Khamis Company (the service provider in this case) signs the contract directly with the Saudi consulting company (the Final Customer), to whom the Main Supply of services is provided directly. Wahid Group charges SAR 1,600 (plus SAR 240 VAT) as its commission, separately from the Main Supply of consulting services.

In certain cases, an Agent may agree to act on behalf of both parties and charge each party for the services provided. In such cases, the Agent will make two separate supplies of services.

In all cases, the supply of agency services provided to a Principal resident in the Kingdom is subject to VAT at the standard rate of 15%, regardless of whether the Main Supply of goods or services is subject to VAT or not. Agency fees in relation to exempt financial services and zero-rated international transport will be discussed in Section 9 of this Guideline.



5.3 Commission Charged to a Non-Resident Principal

An agent acting on behalf of a non-resident principal in a Member State must determine whether the commission for their services qualifies for the zero-rate or not

The Implementing Regulations of the VAT permit the application of the zero rate to services supplied to a Customer who does not have a place of residence in a Member State, provided that all of the following conditions are met:

a. The place of supply of the service is in any Member State pursuant to the special cases listed in Articles 17 to 21 of the GCC Unified VAT Agreement. This does not include services supplied separately from services whose place of supply is in any Member State pursuant to any of those special cases, even if they are directly or indirectly related thereto.
b. The Customer receiving the services is resident in any Member State.
c. The Customer, or any person related to the Customer, directly benefits from the services supplied while present in a Member State, and the related person is not entitled to fully recover the Input Tax thereon.
d. The services are physically performed on tangible goods located in a Member State during the supply process[13].

The application of the zero rate depends on the actual services provided by the Agent. The following are key points relating to agency services:

- Where the Agent charges the Principal a fee for storage or the physical handling of goods in the Kingdom, such supply is not eligible for zero-rating (as these services are physically performed on tangible goods within the Kingdom during the supply).
- The Authority interprets the term "benefiting from the services" to mean the direct and main benefit of the services. Generally, services provided directly to one recipient may incidentally benefit other third parties. In cases where the non-resident Principal directly

(13) Implementing Regulations of the VAT Law

benefits from the supply of services, and another person in the Kingdom benefits incidentally or secondarily from that supply, such secondary or incidental benefit should not affect the Supplier's ability to apply the zero rate as provided in Article 33 of the Implementing Regulations of the VAT Law.

Example (5): Petra Company is a company resident in Jordan and provides remote computing services to companies throughout the Middle East. Petra Company has no physical presence in the Kingdom but has several taxable customers in the Kingdom of Saudi Arabia. Petra Company engages an electronic payment agent in Saudi Arabia to establish a portal enabling the collection of amounts due from Petra's customers and their transfer in USD to Petra's bank account in Jordan. The electronic payment agent has no obligations toward Petra's customers.

In this case, the electronic payment agent provides a service from which Petra Company derives the main benefit in Jordan. There is no relationship between the electronic payment agent and the customer, but Petra's customers in the Kingdom receive and benefit from that service incidentally; the electronic payment agent must apply the zero rate to its services.

6. VAT Treatment Where the Agent Acts in His Own Name

6.1 When Does the Agent Act in His Own Name?

An Agent acts in his own name where the agency relationship is not disclosed to the third party, and the third party believes that it is dealing with the Agent as a Principal acting in his own name.

Example (6): A Saudi company specializing in the manufacture of certain computer devices for the local market in Jeddah appoints a distributor. The distribution contract with the manufacturer sets a fixed selling price and requires the distributor to remit all sales proceeds to the manufacturer (after deducting a commission of 5%). As a result, the distributor sells for the account of the undisclosed Principal, while the third parties are unaware of this. For VAT purposes, the distributor is treated as acting in his own name in relation to sales to third parties.

Example (7): Al Nouf Group, a car distributor in the Kingdom, had surplus stock of road vehicles during 2020G. Yasar Leasing Company, a car rental retailer, agreed to offer the surplus stock for lease to the public in return for a commission of 10% of total rental revenues generated. Al Nouf Group retains ownership of the vehicles and is treated as an undisclosed Principal, while Yasar Company acts in its own name in relation to the lease transactions.

6.2 Treatment of the Agent as Principal for VAT Purposes

The VAT Law in the Kingdom includes a specific rule regarding the application of VAT to an Agent acting in his own name:

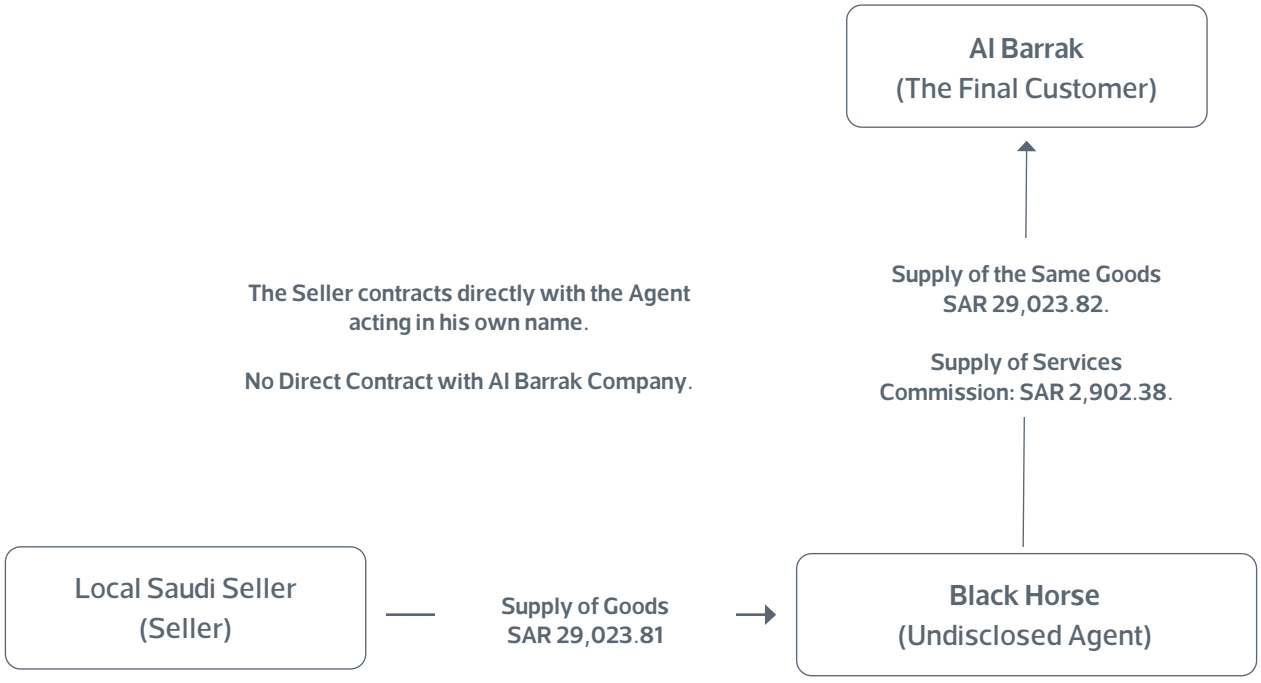
"Where a taxable person, in his own name, supplies or receives goods or services on behalf of another person, he shall be treated, for the purposes of applying the Law and the Implementing Regulations, as having supplied or received those goods or services himself.[14]"

(14) Article 9, VAT Law.

This means that where the Agent acts in his own name, he will be treated in the same manner as a Principal for VAT purposes:

- The Agent receives a supply of goods or services from the Seller (the Agent is considered to be acting as a Customer in relation to the purchase); and
- The Agent makes a subsequent supply of goods or services to the Final Customer (the Agent is considered to be acting as a Supplier in relation to the onward sale).

Example (8): Al Barrak Company intends to purchase goods for its business and appoints Black Horse Company, a purchasing agent, to procure specific goods of high quality at a reasonable price from the local market. Black Horse Company contacts several Suppliers to obtain quotations without disclosing that it is acting on behalf of another person. Under its agreement with Al Barrak, Black Horse Company must obtain the Principal's approval before accepting any offer from Suppliers and must arrange for the goods to be transported to Al Barrak's premises. Al Barrak agrees to pay the cost of the goods (SAR 29,023.81, inclusive of VAT) in addition to 10% for brokerage and transportation services due to Black Horse Company. However, Black Horse Company enters into a direct purchase agreement with the Supplier.



In this case, Black Horse Company is treated as the recipient of the supply of goods from the local Saudi Seller and subsequently makes a supply of the same goods to Al Barrak at a higher price of SAR 31,926.18. No separate supply of services from Black Horse Company to Al Barrak is considered to take place.

Black Horse Company may deduct the VAT amounting to SAR 3,785.71 (included in the purchase price of the goods totaling SAR 29,023.81) on the purchase transaction and must declare Output Tax in respect of the total value of the sale transaction (amounting to SAR 4,164.285, included in the total sale price of SAR 31,926.18).

The details for Black Horse Company would appear in the VAT return as follows:

	Amount (SAR)	Adjustment Amount (SAR)	VAT (SAR)
(1) Standard-rated Sales	27,761.90		4,164.285
(7) Standard-rated Purchases	25,238.10		3,785.71
(13) Total VAT Due for the Current Tax Period			378.57

6.3 VAT on Supplies

Where the Agent acts in his own name, VAT must be applied to each supply separately based on the nature of each supply.

This will generally result in VAT being applied at the same rate to both supplies; however, this must be confirmed for each supply, as the case may require different treatment. For example, if the Agent purchases local goods on behalf of a non-resident Principal and exports them to the Principal's office outside the Gulf Cooperation Council, the initial purchase (subject to VAT at 15%) will be treated separately from the subsequent export (subject to VAT at 0%).

In cases where the Agent acts in his own name, it is not common for the Agent to make a separate supply of agency services. In most cases, the Agent's remuneration is reflected within the profit margin or price difference between the purchase and the subsequent supply of goods or services. However, the Agent and the Principal may agree on providing distinct services (separate from and in addition to the Main Supply of goods or services).

Example (9): Al Yarmouk Limited Company, a distributor of office supplies, enters into an agreement with White Book Company, a licensed VAT-registered sales agent, to promote and distribute its products to companies in the Asir Region. The agreement stipulates that White Book Company shall sign contracts in its own name but must remit all revenues generated to Al Yarmouk Limited Company after deducting a commission of 15%. In addition, Al Yarmouk Limited Company pays White Book Company a fixed monthly fee of SAR 10,000 for its services (regardless of whether sales are achieved or not). The fixed monthly fee constitutes consideration for services supplied separately from the Main Supply of goods.

7. Agent Acting as Importer

7.1 Obligation to Pay VAT on Import

The Authority applies VAT to any imports of goods entering the Kingdom from abroad[15] as part of the formal procedures for issuing the customs declaration.

For VAT purposes, the Importer is the person liable to pay VAT on the importation of goods and is the person designated or recognized as the importer under the Unified Customs Law[16].

For the purposes of the Authority, a person wishing to import goods into the Kingdom in the course of carrying on a business must be licensed to conduct import activities and will be listed in the import declaration in the capacity of Importer. Procedures relating to the issuance of the customs declaration may be carried out by the owner of the goods, an authorized representative, or a customs broker[17]. The representative or broker performs such acts on behalf of and for the account of the Importer, and neither acts as the Importer.

Conversely, where a person acts as the Importer, even if doing so pursuant to the instructions of another person, that person remains liable to pay VAT upon importation.

Example (10): Al Ofoq Education is a Saudi company licensed to import and distribute educational materials in the Kingdom. A university in the Kingdom requested Al Ofoq to procure textbooks from multiple Suppliers in Europe and deliver them to the university campus in Riyadh. The contract terms stipulate that Al Ofoq will import and deliver the materials (using the commercial term "Delivered Duty Paid"), and that the university will pay the agreed purchase price of SAR 100,000, plus a commission of 15% of the purchase price and any applicable tax.

(15) Pursuant to the transitional provisions, the importation of goods from the GCC States is subject to VAT – see Article 79(7), Implementing Regulations. Following the implementation of the electronic services system, VAT will be imposed on imports of goods entering the Kingdom from outside the territory of the GCC.

(16) Article 42, GCC Unified VAT Agreement

(17) Article 110, Unified Customs Law

As Al Ofoq Education acts pursuant to the university's instructions and imports the textbooks in its own name, being duly licensed to do so, it must ensure that Al Ofoq is listed as the Importer in the customs declaration. When Al Ofoq delivers the textbooks to the university, this is treated as a domestic supply of goods for the total consideration (including the profit margin) of SAR 115,000. VAT in the amount of SAR 17,250 must be applied in addition to the selling price.

Al Ofoq is entitled to deduct the VAT paid upon importation (as the goods are subsequently supplied while making a taxable supply).

7.2 Deduction of VAT on Import

Only the person acting as the Importer of goods into the Kingdom may deduct VAT on importation. To qualify for the deduction of Input Tax, the Importer must use the imported goods for the purposes of their Economic Activity involving the making of taxable supplies[18].

As a condition for deducting Input Tax, the taxable person must retain:

"Customs documents evidencing that he is the Importer of the goods in accordance with the provisions of the Unified Customs Law.[19]"

Where a taxable person does not act as the Importer, he will not be eligible to deduct VAT on the importation of goods. The Importer is the person eligible to deduct the Input Tax imposed upon importation. In certain cases, the Importer may differ according to the records of the person who owns the goods at the time of importation (for example, where an intermediary imports the goods). In all cases, the person eligible to deduct or recover VAT is the Importer, provided that the imported goods are used in the course of taxable Economic Activities.

A customs broker may carry out importation for non-commercial purposes on behalf of a natural person/individual. In such cases, the broker acts on behalf of that person in relation to entering the goods into the Kingdom. The broker may not deduct VAT on importation in such cases.

(18) Articles 1 and 44, GCC Unified VAT Agreement

(19) Article 48, GCC Unified VAT Agreement

Example (11): A person resident in the Kingdom appoints a customs broker to carry out import procedures for a luxury car using the customs brokerage license. The broker pays the VAT on importation, which is borne by the resident person as an expense, in addition to the broker's service fees. The imported car is not used by the broker as part of his Economic Activity, and the resident does not carry on any Economic Activity. In this case, neither the resident nor the broker is entitled to deduct the Input Tax.

Example (12): A company resident in the United States sells equipment to a company resident in the Kingdom, being a Saudi refinery company. The refinery company is constructing a new refinery in the Eastern Region and has entered into an agreement with Focus Construction Company, a construction company (third party) in the Kingdom, to install the equipment. The goods are shipped from the United States to the Kingdom of Saudi Arabia, and Focus Construction Company is appointed to act as an "Import Agent" for the purpose of introducing the goods into the Kingdom. As Focus Construction Company is the Importer, it is obligated to pay the VAT due on importation.

Although Focus Construction Company is an "Import Agent" for the equipment in accordance with the commercial arrangement between the parties, it acts as Importer in its own name and for its own account. Focus Construction Company does not own the equipment, nor does it make a subsequent supply to the refinery company, and does not use the goods as part of its Economic Activity. Accordingly, Focus Construction Company will not be able to deduct the VAT paid on importation as Input Tax.

Where the refinery company is the Importer for the purposes of its Economic Activity, it may, in principle, deduct the VAT paid on the imports.

8. Recharge of Costs by Agents

An Agent may agree with the Principal to recover costs incurred when acting on the Principal's behalf. The application of VAT depends on the person who incurred the costs in his own name.

8.1 Costs Incurred in the Name of the Principal (Disbursement)

Where the Agent agrees to a supply received from a third party in the name of the Principal, such supply is made directly from the third party to the Principal.

The agent usually pays the amount to the Supplier and recovers the amount paid from the Principal. In such case, the reimbursement of the expenses by the Principal is not treated as consideration for a supply made by the Agent. This situation is often referred to as "Disbursement."

The term "Disbursement" may be used differently for commercial purposes than for tax purposes. The Authority accepts that VAT will not be imposed on "Disbursement," provided that the following criteria are met:

- The Principal actually receives the goods or services (either directly or through the Agent).
- The Principal is the person responsible for payment.
- The Principal is aware of the existence of a supply from a third-party Supplier and authorizes (whether generally or specifically) the Agent to pay on his behalf.
- The Agent claims the specified amount from the Principal without any profit margin.
- The commercial documents clearly indicate that the cost incurred is separate to the supplies made by the Agent to the Principal.

Example (12): A design company in the Kingdom completes the design of an office for one of its clients, a bank. Upon completion of the design phase, the bank authorizes the design company to pay a fee of SAR 15,000 to the municipal authority to obtain the required certificate for carrying out construction works. The permit is issued in the name of the bank.

The design company performs the design services in its own name in its capacity as Principal but acts as Agent in relation to obtaining the certificate from the municipality. If the design company claims the amount of SAR 15,000 separately from the design fees, this amount will be treated as "Disbursement" and will not be subject to VAT.

However, if the design company charges an inclusive price for the design, including the costs of obtaining the certificate from the municipality, this will constitute a single supply of services fully subject to VAT.

"Disbursements" are not treated as a taxable supply made by the Agent. Accordingly, the Agent is not subject to the tax invoice requirements specified in the Law and the Implementing Regulations in respect of such Expenses. Nevertheless, the Authority recommends that where Disbursements are charged to the Principal by a taxable Agent, the Agent should issue a tax invoice clearly evidencing that the amount represents Disbursements (and is therefore not subject to VAT). Where clear supporting documentation for the Disbursements is not issued, this may imply that the Agent himself has made a taxable supply in respect of the consideration received.

8.2 Costs Incurred in the Name of the Agent (Compensation)

Where the Agent incurs costs in his own name and subsequently charges such costs to the Principal, this is treated as consideration for a supply made by the Agent to the Principal. To distinguish such costs from "Disbursements," they are often referred to as "Compensation."

The VAT treatment will depend on whether the Agent acts in the name of the Principal or in his own name, rather than on the nature of the costs themselves.

In the case of Compensation, VAT may apply either as a subsequent supply of the same goods or services, or. where applicable, as additional consideration for a Main Supply made by the Agent.

VAT applies to the subsequent supply of goods or services if they are supplied by the Agent to the Principal (except in cases where the supply is exempt or outside the scope of VAT). This will generally correspond to the VAT rate applicable to the original charge; however, it may differ depending on the status of the parties.

Example (13): Golden Motors Company agrees to provide repair and maintenance services for a fleet of commercial vehicles. One of its customers, United Foods Company, required replacement of a part in one of its vehicles. Golden Motors located the required part at a used-parts dealer not registered with the Authority for VAT purposes. Golden Motors purchased the part in its own name for SAR 800 and charged United Foods Company for reimbursement of the costs incurred.

Although Golden Motors did not incur VAT on the purchase, the subsequent supply of that part is considered a taxable supply made in the course of its Economic Activity. Golden Motors is required to apply VAT at 15% to the amount of the Compensation.

Where the cost recovered forms part of a larger Main Supply, that cost will be treated as an increase in the price of the Main Supply. Accordingly, VAT will be applied at the same rate applicable to that supply.

Example (14): Al Haleem Consulting Company, a Saudi consulting firm, undertakes a large project for a Saudi ministry. To complete the project, it needs to bring in a specified number of experts from other countries. Accordingly, the company agrees to reimburse its employees for actual travel costs in addition to the agreed fees.

The payment of travel tickets does not constitute a separate service provided to the ministry; rather, it forms an integral part of the execution of the project. Although the travel tickets incurred are subject to VAT at zero rate, such costs must be charged as additional consideration for the project fees (and therefore are subject to VAT at 15%).

9. Special Cases

This Section includes considerations relating to agency in specific sectors.

9.1 Travel Agents

Travel agents may act in different capacities in a commercial context. For example, a travel agent may act:

- As a Principal, in relation to purchasing travel and accommodation rights and related goods and services, and subsequently supplying them to the traveler; or
- As an Agent, in relation to concluding a contract directly enforceable between the traveler and another Supplier, and charging a separate commission for the services provided.

The application of VAT depends on the specific circumstances of each case and the capacity in which the travel agent acts. Supplies made by a transport Supplier, or by a travel agent acting in his capacity as Principal, in respect of international passenger transport are subject to VAT at the rate of 0%[20].

A separate fee charged by a travel agent as commission for zero-rated international travel constitutes consideration for a service separate from the transport service provided by the transport Supplier. Accordingly, such a commission is not subject to VAT at zero rate.

(20) Article 34, Implementing Regulations. Please refer to the Transport Guideline for further details.

9.2 Land Transport Services and Smart Transport Applications

Individual passengers seeking land transport services (such as taxi or similar services) may contract directly or may request another person to arrange the trip (such as local companies or electronic transport applications). The company then makes the necessary arrangements to provide a driver to perform the trip.

Where:

- natural person/individual passenger or company has an account with a company providing taxi or similar land transport services (including companies operating electronic transport applications);
- transport requests are made through the company; and
- the company collects the payments,

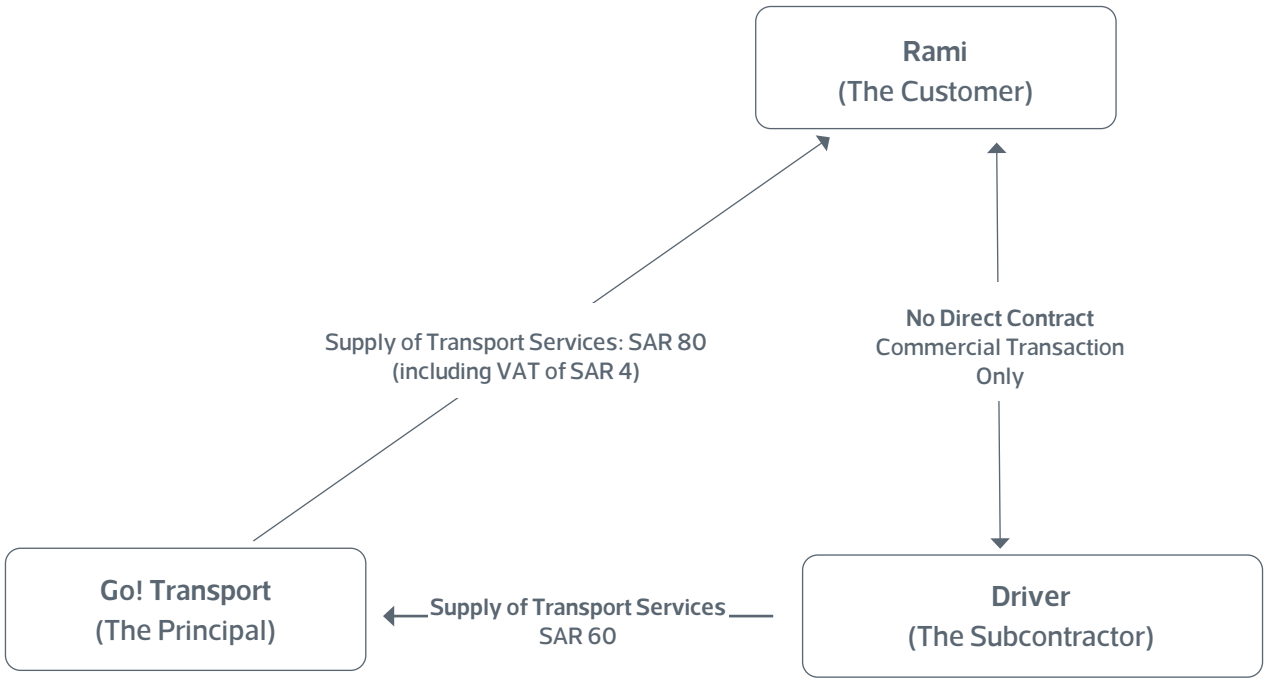
Companies act in their capacity as Principal in performing the transport service. Individual drivers provide their services to the companies.

Example (15): Rami has an account with Go! Transport, a company licensed to provide transport services in the Kingdom. In 2019 (when the tax rate was 5%) Rami wanted to travel from central Riyadh to King Khalid International Airport. The fare offered by Go! through its electronic application is SAR 84 (inclusive of VAT). Rami will pay this amount upon completion of the trip.

Go! Company provides a driver with a car to perform the transport service and pays the consideration for the service to the driver after deducting a commission of 25% of the trip fare. In this case, Go! Company receives the transport request, is the party obligated to provide the service to the Customer, and is the party contracting with the Customer. It then provides the transport service through independent drivers (who are considered to provide the service to Go! Company). Accordingly, it acts as Principal.

The driver works as an independent service provider and performs the transport services for a fee of SAR 63 (75% of the amount collected from the Customer).

In this case, Go! Company is required to apply VAT in the amount of SAR 4 on the total value of the supply provided to Rami. If the driver is registered for VAT, he must account for VAT for SAR 3 as part of the total consideration for the trip and issue a tax invoice to Go! Transport.



9.3 Financial Intermediary

Financial intermediaries act as Agents in relation to connecting assets with another person who wishes to enter into a financial transaction with them. The intermediary receives a commission (or any other consideration) for the service. This may also include other related services (such as contract management services or carrying out required regulatory reviews).

Explicit fees (whether calculated on a fixed price basis, as a percentage of value, or by another method) are in all cases subject to VAT, even if the underlying financial service or product is exempt from VAT[21].

(21) Article 29(1), Implementing Regulations

Example (16): A stockbroker provides a service to a Saudi investor to identify and arrange a portfolio of locally listed securities on the Saudi stock exchange for investment purposes. The stockbroker communicates with the stock exchange and executes transactions under a standing authorization from the investor and charges a percentage of the transaction value as commission.

The supply of financial stocks constitutes an exempt supply of financial services. However, the broker's financial services do not constitute a supply of financial stocks and are charged on the basis of an explicit fee. Accordingly, the stockbroker must apply VAT to the commission charged to the investor.

A financial services provider may earn commissions on the basis of an implicit profit margin or an implicit spread between bid and ask prices. In such cases, the "intermediary" is considered to be trading securities for his own account and acts as Principal. Consequently, commissions charged through an implicit margin or spread in respect of brokerage services or under a Mudarabah or agency contract[22] are exempt from VAT as a financial service supplied by the Supplier in his capacity as Principal.

9.4 Hotel Operators

Hotel owners and owners of similar accommodation establishments commonly enter into agreements with a third-party company to operate their facilities.

In such cases, the basic principles must be applied to determine the party making the supply to the Customer or hotel guest in order to determine the appropriate VAT treatment.

- If the hotel operator acts on behalf of the Principal or acts in his own name toward hotel guests, the operator must charge VAT on the supply of accommodation, regardless of whether the operator considers the value of the supply as its own revenue or is required to remit such revenue to the owner.
- If the hotel guest contracts with the hotel owner or enters into a contract in which the hotel owner appears as the Supplier, the hotel owner must charge VAT on the supply of accommodation.

(22) Article 29(5), Implementing Regulations

The application of VAT depends on the specific facts of each case. The following relevant factors should be taken into account:

1. When the hotel guest agrees to and signs the terms and conditions (e.g., at check-in), do such terms and conditions refer to the hotel owner? If not, this may indicate that the hotel operator is acting as Principal or in his own name.
2. Who is responsible for performing the contractual obligations toward the hotel guest, the hotel owner, or the hotel operator? (For example, which party is required to arrange alternative accommodation or compensate for damages if the hotel is fully booked?) If the hotel operator is responsible, this indicates that the operator is acting as Principal or in his own name.
3. Does the hotel owner's name appear on invoices issued to guests? If not, this indicates that the hotel operator is acting as Principal or in his own name.

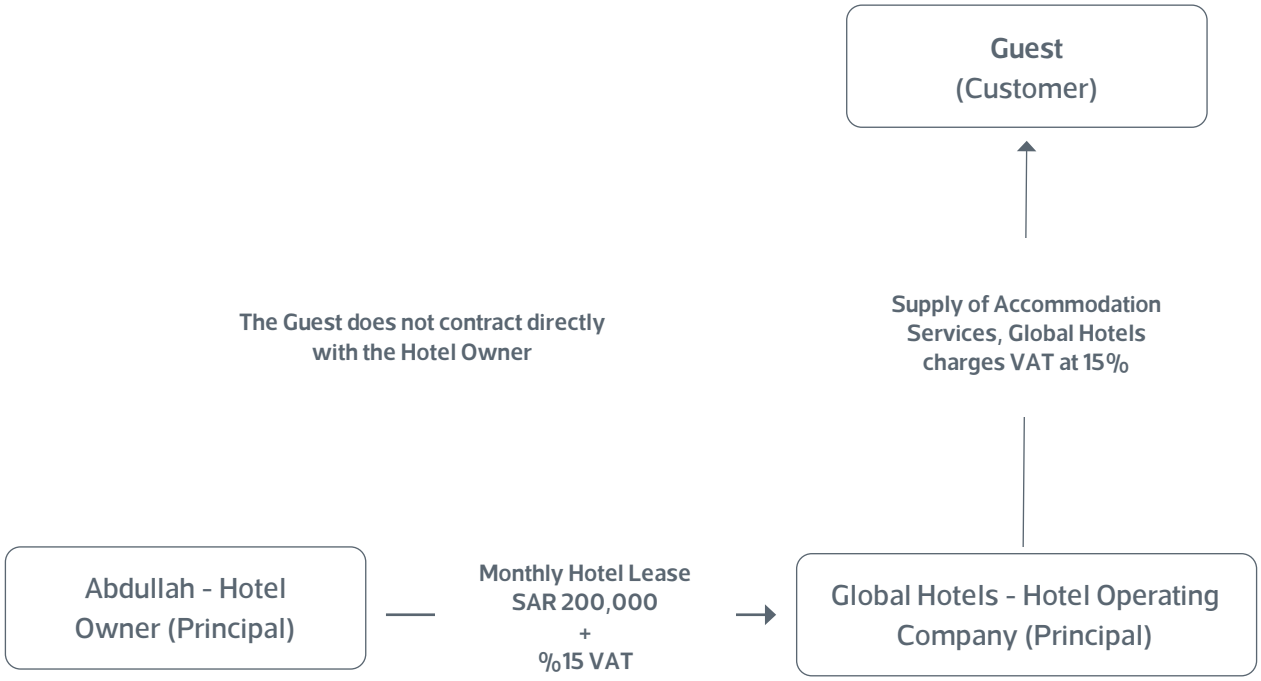
Therefore, hotel operators and hotel owners should clearly specify the name under which accommodation is supplied to the hotel guest (through contractual documentation and other documents issued to the Customer).

9.4.1 Agent Acting as Principal or in His Own Name

A hotel operator is considered to be acting as Principal where it operates the hotel for his own account. In such case, the hotel operator must file a VAT return in respect of the supplies he makes.

Example (17): Abdullah owns a hotel in Riyadh. He leased the hotel to an international hotel company, Global Hotels, for a monthly fee of SAR 200,000 plus VAT. Although Global Hotels does not own the hotel building, it enters into contracts with hotel guests in its own name and for its own account. It also incurs expenses directly from other Suppliers.

Global Hotels must charge VAT on the supply of accommodation and other revenues generated by hotel guests.



9.4.2 Hotel Operator Acting as Agent in His Own Name

If the hotel operator acts based on the instructions of the hotel owner and for his benefit, this means that the hotel operator acts on behalf of the owner.

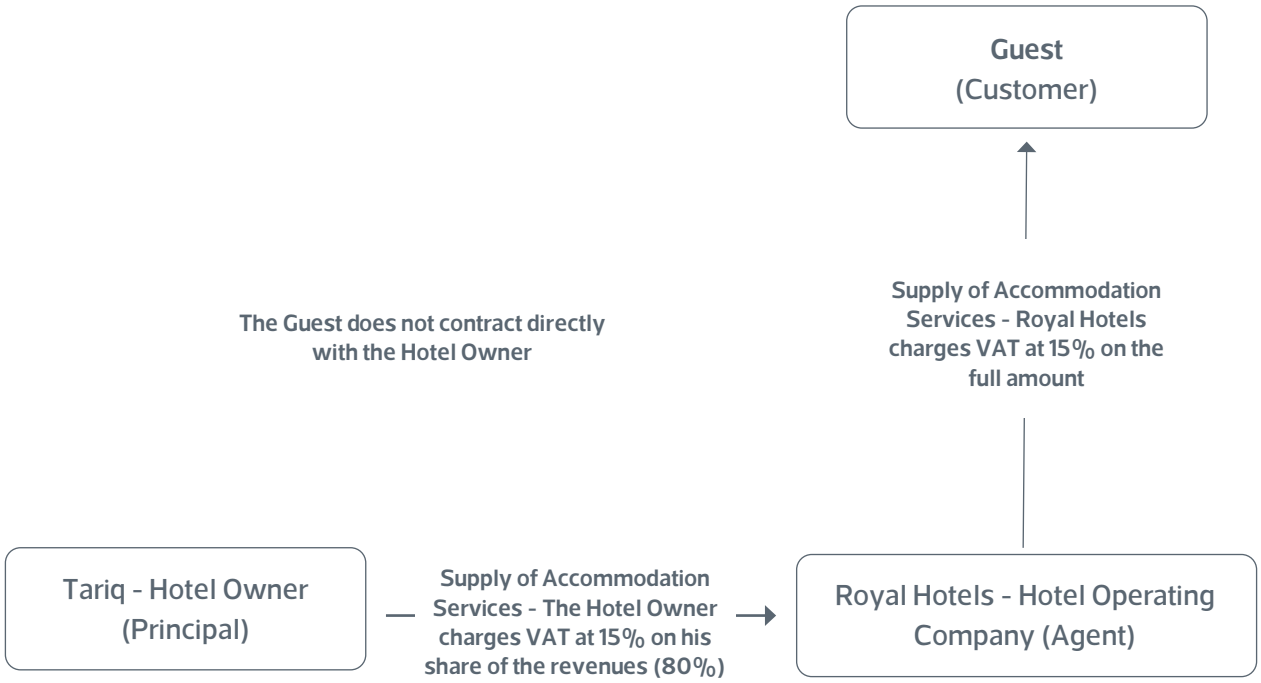
However, where the hotel operator acts in his own name without the hotel guest being aware that the operator is acting on behalf of the Principal, the hotel operator is treated as the Supplier making the supply of accommodation and similar services for VAT purposes. Therefore, the hotel operator must charge VAT on such supplies.

Example (18): Tariq owns a hotel in Riyadh. He entered into an agreement with Royal Hotels Company to operate the hotel on his behalf. Royal Hotels Company is required to operate the hotel in accordance with the agreed instructions and must remit 80% of the total revenues to Tariq monthly (after deducting approved expenses). Royal Hotels Company does not record

revenues and expenses in its own accounts, except for the 20% revenues due under the contract with Tariq.

A sign at the hotel entrance indicates that Tariq is the hotel owner and that Royal Hotels Company is the hotel operator. However, all contracts with guests and third-party Suppliers are signed in the name of Royal Hotels Company, and the guests and Suppliers are not aware that Royal Hotels Company acts on behalf of Tariq.

The diagram below illustrates how VAT is accounted for on supplies of accommodation.

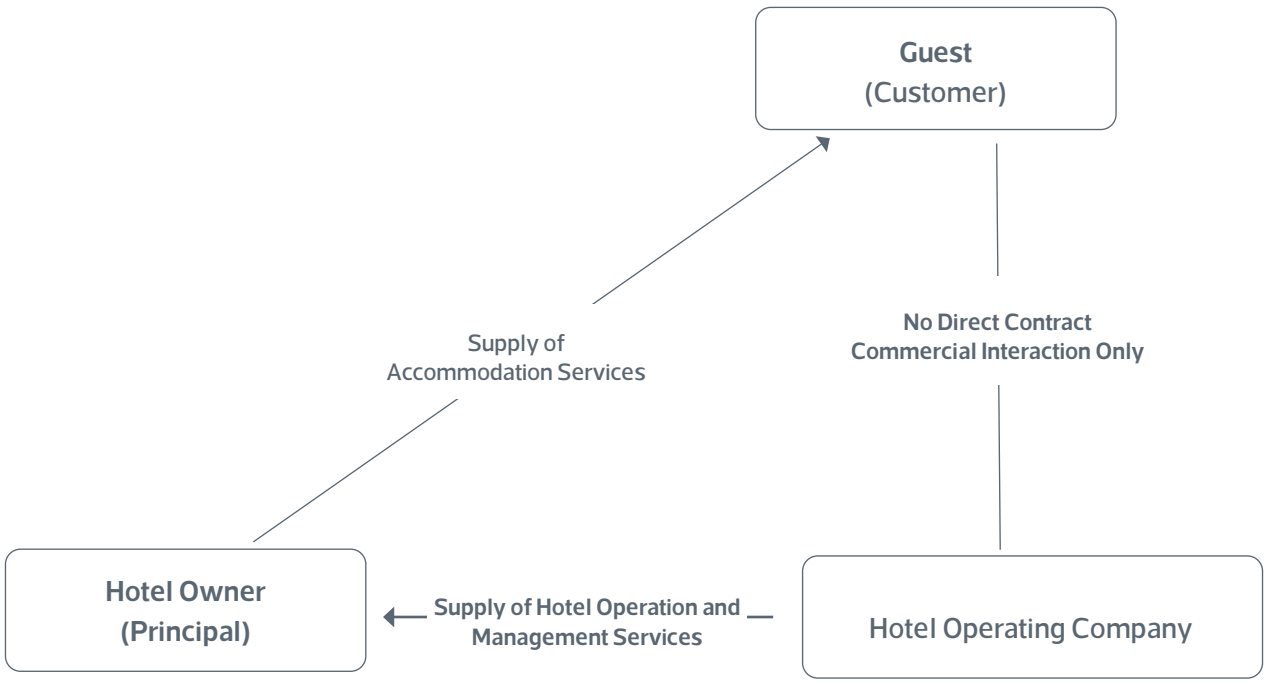


9.4.3 Hotel Guest Contracting with the Hotel Owner

In cases where the hotel guest books accommodation and the owner's name appears as the Supplier, or where the guest agrees to terms and conditions issued in the name of the hotel owner, the guest will generally have no separate contractual relationship with the operating company in respect of that supply.

In such cases, the hotel owner supplies the accommodation to the guest as Principal, and the hotel operator does not make the supply of accommodation for VAT purposes (but instead supplies services to the hotel owner).

The hotel owner must issue tax invoices to the guests in his own name and declare VAT on the supplies. The hotel operating company acts on behalf of the Supplier based on the instructions of the hotel owner in relation to operating the hotel, without acting in its own name in making supplies of accommodation services to Customers. The operator will also declare VAT in respect of the supplies it makes to the hotel owner.



10. Deduction of Input Tax

10.1 General Provisions

A person registered for VAT purposes may deduct Input Tax imposed on goods and services purchased or received while carrying on their Economic Activity. Input Tax may be deducted in respect of:

- VAT charged by a Supplier registered in the Kingdom;
- VAT self-accounted by a person registered for VAT purposes under the reverse charge mechanism;
- VAT on imports paid to the Authority upon the importation of goods into the Kingdom.

As a general rule, Input Tax relating to exempt supplies is not deductible.

In addition, Input Tax may not be deducted in respect of any expenses incurred that are not related to the taxable person's Economic Activity (including certain restricted expenses such as entertainment services, cultural services, catering services, and restricted vehicles[23]), or any other costs relating to exempt supplies. Input Tax constitutes a credit balance included in the VAT return and is deducted from the VAT imposed on supplies (Output Tax) made during that period.

Input Tax may only be deducted where the taxable person holds a tax invoice or customs documents evidencing the amount of tax due, or any alternative document evidencing the amount of Input Tax paid or payable, subject to the approval of the Authority[24].

(23) Article 50, Implementing Regulations - List of Restricted Expenses

(24) Article 49(7), Implementing Regulations

10.1.1 Input Tax Incurred by Agents

An Agent acting in his own name in receiving supplies of goods or services on behalf of the Principal is treated as having received such supplies as a Customer[25]. Accordingly, an Agent acting in his own name is entitled to deduct Input Tax on such supplies, provided that he retains a tax invoice issued in his name and satisfies the other conditions for deduction.

An Agent acting in the name of the Principal is not entitled to deduct Input Tax on supplies received in the name of the Principal. Regarding imports of goods, VAT paid to Saudi Customs may only be deducted by the Importer, provided that the imported goods are used by the Importer as part of his taxable Economic Activity. Please refer to Section 7.2 of this Guideline for further details.

10.2 Apportionment of Input Tax

Input Tax relating to the taxable person's exempt supplies, such as exempt financial services or real estate supplies, may not be deducted. If the taxable person makes both taxable supplies and exempt supplies, the person may deduct Input Tax relating to the taxable portion. Where the taxable person incurs general expenses or costs in respect of both taxable and exempt supplies, such expenses and costs, the person must allocate the expenses and costs accurately to determine the portion relating to taxable supplies.

Input Tax shall be determined in accordance with the following provisions[26]:

Input Tax directly attributable to taxable sales transactions	**Full Deduction**
Input Tax directly attributable to exempt sales transactions	**No Full Deduction**
General expenses and Input Tax that cannot be directly attributed	**Partial Deduction Based on Apportionment**

(25) Article 9, VAT Law

(26) Article 51, Implementing Regulations

General expenses-/ costs paid by a VAT-registered person in respect of making VAT-liable and VAT-exempt supplies must be allocated to accurately reflect the use of such costs in the taxable portion of the taxable person's activities.

The proportional deduction in respect of the value of taxable supplies made during a given year is calculated using the following default method:

$$\frac{\text{Value of taxable supplies made by the taxable person during the previous calendar year}}{\text{Total value of taxable and exempt supplies made by the taxable person during the previous calendar year}}$$

The above method does not include capital asset supplies made by the taxable person, as this would distort the use of Input Tax.

The Authority may approve alternative methods for calculating the default proportional deduction, other than the value of supplies, where such methods more accurately reflect the actual use of the VAT incurred.

Further information regarding the deduction of VAT and partial recovery of VAT is available in the VAT Deduction Guideline.

11. Tax Obligations

Every taxable person must assess their tax position and ensure compliance with the requirements and obligations relating to VAT. This includes registering for VAT where required, accurately calculating the net tax due and paying the tax in its due date, maintaining all necessary records and cooperating with Authority officials upon request.

If the person is uncertain about their obligations, they must contact ZATCA through the website zatca.gov.sa or other available communication channels.

The following sets out the principal tax obligations stipulated in the Law and the Implementing Regulations.

11.1 Issuance of Invoices

The Supplier must issue a tax invoice for each taxable supply made to another person registered for VAT purposes or to any legal person. A simplified tax invoice may be issued if the value of the supply is less than SAR 1,000, or if the supply is made to a natural person not subject to VAT. The invoice must be issued no later than 15 days following the end of the month in which the supply is made.

The tax invoice must clearly include certain information and particulars, such as the invoice date, the Supplier's Tax Identification Number (TIN), the taxable amount, the applied tax rate, and the VAT amount charged[27]. Where different rates apply to supplies, the value of each item must be specified separately, together with the VAT applied to that item. A 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 issuance of a tax invoice or simplified tax invoice as set out in the Implementing Regulations[28].

(27) For further details, please refer to the Tax Invoices Guideline and Article 50, Implementing Regulations

(28) Article 53, Implementing Regulations.

11.1.1 Invoices Issued by a Third Party

A third party may issue tax invoices in respect of taxable supplies, provided that the following conditions are met:

- The supply relates to taxable goods or services made by a VAT-registered supplier to a Customer. In such case, the third party issues the invoice on behalf of the Supplier.
- The Supplier's details, including the Tax Identification Number, must be included in the tax invoice, and must clearly state that the invoice was issued on behalf of the supplier in relation to the supply made by that supplier. The third party must not include its own Tax Identification Number or disclose its own details in the tax invoice.
- The VAT-registered supplier must not issue another tax invoice in respect of the same supply if a third party has issued a tax invoice on its behalf.
- Approval must be obtained from the competent tax authority, subject to all requirements and obligations set out in the GCC Unified VAT Agreement and the domestic Law[29]. In respect of supplies made in the Kingdom, the Authority approves third-party invoicing where the relevant conditions are met, unless the Authority rejects the request submitted by the Supplier and the third party.
- The Supplier remains responsible for the accuracy of the information stated in the tax invoice and for declaring the Output Tax relating to the supply[30].
- Both the Supplier and the third party (if registered for VAT purposes) must notify the Authority of their prior agreement through the procedures specified by the Authority, subject to any additional conditions the Authority may later determine. If the Authority rejects the notification, the third party may not be able to issue tax invoices on behalf of the supplier.

Further details on tax invoice requirements may be found in the Tax Invoices and Record Keeping Guideline.

(29) Article 58(2), GCC Unified VAT Agreement

(30) Article 53(3), Implementing Regulations

11.2 Filing 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 VAT return constitutes a self-assessment by the taxable person of the tax due for that period.

Monthly tax periods are mandatory for VAT-registered persons whose annual revenues exceed SAR 40,000,000, while the standard tax period for other VAT-registered persons is 3 months.

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

If the VAT return results in a refundable amount due to the taxable person, or where the taxable person has a credit balance for any reason, the taxable person may claim a refund of that amount after submitting the VAT return, or at any later time within the following 5 years, by submitting a refund request to the Authority. The Authority will review such requests and pay the refundable amount due directly to the taxable person for accepted refund claims[31].

11.3 Record Keeping

All taxable persons must maintain appropriate tax records relating to the calculation of VAT for audit purposes. This includes any documents used to determine the VAT due on each transaction and in the VAT return.

Such records generally include:

- Issued and received tax invoices;
- Accounting books and records;
- Contracts or agreements relating to major sale and purchase transactions;
- Bank statements and other financial records.
- Import, export, and shipping documents

(31) Article 69, Implementing Regulations

- Other documents relating to the calculation of VAT.

Records may be retained in paper or electronic form, provided that the conditions specified in the Implementing Regulations are met. Such 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. The minimum retention period is extended to 11 years for invoices and records relating to movable capital assets, and to 15 years for invoices and records relating to immovable capital assets(32).

A taxable person may appoint an Agent or third party to maintain his records and comply with the related requirements. In all cases, responsibility for compliance with record-keeping obligations remains with the taxable person(33).

11.4. VAT Registration Certificate

A resident taxable person registered with the Authority for VAT purposes must display the VAT Registration Certificate at his principal place of business and at all branches and electronic stores, in a location visible to the public.

Failure to comply with this requirement may result in the penalties prescribed in the Law.

11.5. Correction of Previous Errors

Where a taxable person becomes aware of an error or inaccuracy in the amount declared in a submitted VAT return, or of a failure to comply with any tax obligation, the person must notify the Authority and correct the error by amending the VAT return. If the error results in a net tax difference exceeding SAR 15,000, the taxable person must notify the Authority within 20 days of becoming aware of such error or incorrect amount and amend the prior return. In the case of minor errors resulting in a net tax difference of less than SAR 15,000, the error may be corrected by adjusting the net tax in the subsequent VAT return(34).

For further information on correcting errors, please refer to the website: zatca.gov.sa

(32) Articles 66 and 52, Implementing Regulations

(33) Article 66(4), Implementing Regulations

(34) Article 63, Implementing Regulations

12. Penalties

The Authority may impose fines or penalties on taxpayers for violations of the provisions and conditions of VAT as set out in the VAT Law and its Implementing Regulations[35].

Non-Field Violations

Description of Violation	Associated Penalty
Submitting incorrect documents with the intention of evading payment of due tax or paying less than the tax due	• Not less than the amount of tax due. • Not exceeding 3 times the value of the goods or services.
Moving goods to or from the Kingdom without payment of the tax due	• Not less than the amount of tax due. • Not exceeding 3 times the value of the goods or services.
Failure to register for VAT within the specified registration period	SAR 10,000
Submitting an incorrect VAT return, amending a VAT return after submission, or submitting any document to the Authority relating to tax due that results in an error in calculating VAT less than due.	25% of the difference between the calculated tax and the tax due. The Authority may increase the penalty to 50% or reduce it to 0%.
Failure to submit the VAT return within the prescribed deadline	5-25% f the VAT due for that return
Failure to pay VAT within the prescribed deadline	5% of the tax due for each month or part thereof
Charging VAT without being registered for VAT	Fine up to SAR 100,000

In the above cases, where the violation is repeated within 3 years from the date of the final decision regarding the penalty, the Authority may double the fine upon repetition.

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

The Authority determines the level of fine or penalty imposed on the taxable person, taking into account the taxable person's conduct and VAT compliance history, including compliance with the obligation to notify the Authority of errors and cooperation in correcting them.

The penalty relating to the violation of submitting an incorrect VAT return, amending a return after submission, or submitting any document to the Authority resulting in an understatement of tax, shall be calculated in accordance with the table above and subject to the following controls:

First: Increase of the Penalty

The Authority may increase the percentage of the penalty associated with the violation of "submitting an incorrect VAT return, amending a VAT return after submission, or submitting any document to the Authority relating to the tax due, resulting in an understatement of the tax amount," up to a maximum of 50% of the difference between the calculated tax and the tax due, where 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 tax evasion case 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 very poor.
3. The penalty shall be increased by 5% where the taxable person's compliance record is poor.
4. The penalty shall be increased by 5% where the percentage of the difference between the calculated tax and the tax due, whether payable or refundable, relating to the total periods under adjustment 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 percentage of the penalty associated with the violation of "submitting an incorrect VAT return, amending a VAT return after submission, or submitting any document to the Authority relating to the tax due, resulting in an understatement of the tax amount," down to 0%, where one or more mitigating factors apply, as follows:

1. Reduction by 5% where the taxable person's compliance record is good.
2. Reduction by 5% where the tax difference, payable or refundable, relating to the total periods under adjustment is less than 5% for monthly returns or less than 15% for quarterly returns.
3. Reduction by 10% where the taxable person settles the payable tax difference within 30 days from the date of the assessment decision.
4. Reduction by 15% where the taxable person is classified as a micro-enterprise. For the purposes of these rules, a micro-enterprise is one whose annual taxable revenues do not exceed SAR 3,000,000 during the 12 months preceding the tax period under review.
5. More than one mitigating factor may not be combined, except for factors relating to the settlement of the tax due.
6. Notwithstanding the provisions set out in this Section (Second), the percentage of the penalty shall not be reduced where the error in the return is associated with a tax evasion case for which a decision has been issued by the Authority.

Third: Determination of Compliance Level

The Authority shall determine the level of compliance of the taxable person based on the number of violations recorded in his previous VAT returns in relation to the submission of returns within the prescribed deadline or the payment of tax due within the prescribed deadline, as follows:

1. Compliance is considered good where no violations occurred during the previous 12 months.

2. The taxable person's compliance shall be considered poor for a taxable person who submits VAT returns monthly, where more than 2 and up to 6 violations have been committed during the previous 12 months. For a taxable person who submits VAT returns quarterly, where 1 or 2 violations have been committed during the previous 12 months.
3. The taxable person's compliance shall be considered very poor for a taxable person who submits VAT returns monthly, where more than 6 violations have been committed during the previous 12 months. For a taxable person who submits VAT returns quarterly, where more than 2 violations have been committed during the previous 12 months.

Fourth: Cases Where No Incorrect Return Penalty Is Imposed

1. Where the taxable person corrects the return in accordance with Article 63 of the Implementing Regulations of the VAT Law, provided that such correction is made prior to being notified of the commencement of examination and audit procedures by the Authority.
2. Where the difference between the calculated tax and the tax due is less than SAR 5,000.

Fifth:

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

Field Violations

All field violations initially result in a warning and awareness notice, granting the violator a suitable period of 30 to 60 days to remedy the violation. The exception is the violation of preventing or obstructing Authority employees from performing their duties, where the violator is granted a period not exceeding 10 days from the date of the last penalty to rectify the violation. Subsequent violations may result in successive penalties upon repetition.

For the classification schedule of general VAT violations and penalties specifically related to the Electronic Invoicing Regulations, please refer to the Guideline on the Classification of General VAT Violations.

13. Request for an Interpretative Decision (Tax Ruling)

If you are uncertain about how VAT applies to a particular activity or transaction that you undertake or intend to undertake, 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.

14. Contact Us

For further information regarding any VAT-related transaction, please visit the website: **zatca.gov.sa**, or contact us at 19993.

15. Frequently Asked Questions

1. May an Agent issue tax invoices on behalf of the Principal?

If the Agent acts in his own name, he is considered to be making supplies and must issue tax invoices including his name and Tax Identification Number. If the Agent acts in the name of the Principal, the issued tax invoice must include the name of the Principal and the Principal's Tax Identification Number. An Agent may issue tax invoices on behalf of the Principal, provided that the requirements relating to third-party invoicing are satisfied.

2. Is the Agent responsible for the tax obligations of the Principal?

Where the Agent acts in the name of the Principal and within the authority granted by the Principal, the tax liability arising from the Economic Activity rests with the Principal.

In certain cases where the Agent participates in violations committed by the Principal in accordance with the Law and the Implementing Regulations, the Agent becomes jointly liable for the VAT and penalties due.

3. A travel agent registered for VAT sells an international flight ticket priced at SAR 1,100 in the airline system. The travel agent sells the ticket to customers for SAR 1,000 plus SAR 100 commission. Is the commission subject to VAT?

The VAT treatment of the ticket and the commission depends on whether the travel agent acts in his own name or on behalf of a Principal, in accordance with the contractual arrangements of the transaction.

In the above case, given the existence of a separate commission, it is clear that the travel agent acts as Agent for the airline and sells international travel tickets. Since international passenger transport is subject to VAT at the rate of 0%, the commission is subject to VAT at 15%.

4. A property management company has an agreement with the owners of a commercial property granting it authority to lease, supervise, operate, and maintain the property. The management company signs lease contracts with tenants in its capacity as lessor. How is VAT applied in this case?

The management company acts in its own name and, through such capacity, makes supplies to the tenants while acting on behalf of the property owners. The management company must charge VAT on the leasing.

5. A trader sells farmers' products in the local market and transfers the revenue to the farmer after deducting a commission. Is the trader required to issue a tax invoice in his own name for this supply?

Where the trader acts in his own name and sells the products in the local market, this constitutes a supply made by the trader. The trader must issue a tax invoice for the full amount collected from customers and charge VAT on the sale.

In the above case, the farmer (natural person) is considered to be making a supply of products (equal to the net amount received from the trader) and must charge VAT on such supplies where he is a taxable person.



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