VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

# For the Retail Sector under VAT Provisions

Issue 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 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.

## Revision Log

| # | Edition No. | Amendment Date | Section/ Clause | Amendment Type | Amendment Description | Remarks |
|---|---|---|---|---|---|---|
| 1 | 2 | May 2026 | 6.2 | 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. (01-4-23) dated 26/11/1444H, corresponding to 15/06/2023 | - |
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| 3 | | | 10<br>16 | Amendment | Update in accordance with the decision of the Board of Directors of the Zakat, Tax and Customs Authority No. (6-2-23) dated 28/08/1440H | - |

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# 1. Introduction

## 1.1. Application of Value Added Tax Law in the Kingdom of Saudi Arabia

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

## 1.2. Zakat, Tax and Customs Authority

On 22nd Ramadan 1442H/ 4th May 2021, the Council of Ministers issued Decision No. (570), providing for the merger of the General Authority of Zakat and Tax (GAZT) and the General Customs Authority into a single entity under the name of Zakat, Tax and Customs Authority (ZATCA). Since then, the Authority has efficiently undertaken the collection of Zakat, taxes, and customs duties, ensuring the highest levels of compliance by taxpayers in alignment with best practices. The Authority's mission is to enable the Kingdom to become a global logistics hub by facilitating trade, protecting national security, regulating all activities related to customs operations and customs ports, and managing them in a manner that ensures their advancement to the highest levels of efficiency, productivity, and competitiveness. This is achieved through the provision of high-quality, client-centered services offered in alignment with best practices.

## 1.3. What is VAT?

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

VAT is a consumption tax that is charged and collected at each stage of the supply chain, starting from the manufacturer's purchase of raw materials through to the retailer's sale of the final product to the consumer. Unlike other taxes, persons subject to VAT will do all the following:

- Collect VAT from their Customers on each taxable sale in accordance with the specified rates.
- Pay VAT to Suppliers from whom they have received goods or services, if any, on each taxable purchase, at the applicable specified rate.

When persons subject to VAT sell a good or provide a service, they must impose tax at a rate of 15% (assuming the standard rate applies to such supplies), which is added to the final sale price. Persons subject to the tax must account for the 15% collected on taxable sales separately from their revenues, for it to be remitted subsequently to ZATCA. The VAT collected by persons subject to the tax on their sales is referred to as Output Tax.

Similarly, purchases made by persons subject to the tax are treated as such that VAT at a rate of 15% is added to purchases of goods and services made from persons subject to VAT (assuming the standard rate applies to such supplies). The VAT paid to their Suppliers is referred to as Input Tax.

## 1.4. This Guideline

The importance of this Guideline lies in providing further clarification to legal persons and natural persons who carry out economic activities and who are required to register for VAT purposes, in relation to the obligations and tax implications associated with operations in the retail sector. The Guideline also provides further information on the accounting fundamentals applicable to certain retailers.

## 2. Definitions of Key Terms

1. **Value of Supply:** is defined as "the consideration for the supply, exclusive of the tax amount[1]" collected or to be collected in respect of that supply. Accordingly, the value of supply is often referred to as the sale price exclusive of VAT. This concept will be explained in further detail in Section 4 of this Guideline.

2. **Consideration:** is defined as "everything received or to be received by the taxable Supplier from the Customer or from a third party in return for the supply of goods or services, including VAT[2]".

3. **Advertised Price:** is not defined for VAT purposes. However, ZATCA considers it to mean any price that is advertised or published, whether through physical or electronic means, or otherwise displayed to the public in the context of retail sales. The advertised or published price, or any price initially set or determined by the Supplier, may differ from the final price agreed between the Supplier and the Customer.

4. **Customer:** means the person who receives goods or services[3].

5. **Fair Market Value:** of a supply is "the consideration due for similar and contemporaneous supplies of goods and services made between persons who are not related persons[4]".

6. **Related Persons:** are defined in the Unified VAT Agreement as:

   "Two or more persons where one of them has ZATCA to direct and supervise the others such that he has administrative authority enabling him to influence the work of the other persons from a financial, economic, or organizational perspective. This also includes persons subject to ZATCA of a third person, enabling them to influence their work from a financial, economic, or organizational perspective[5]."

(1) Article 26(1), Unified VAT Agreement

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

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

(4) Article 38(2), Implementing Regulations, and Article 26(1), Unified VAT Agreement

(5) Article 1, Unified VAT Agreement

The Implementing Regulations provide further detail at the level of the Kingdom regarding specific cases in which two or more persons are considered related persons for VAT purposes. Examples that may arise in the context of business promotional activities include:

- Family members: natural persons and their relatives (including direct relatives up to the fourth degree).
- Employers and employees: including partners in any type of partnership.
- Business owners: a natural or legal person who owns more than 50% of the value or voting rights of that legal person.
- Commonly owned companies: two legal persons where the same person, or more than one person, holds more than 50% of the voting rights or value of the legal person[6].

7. **Nominal Supply:** This term is defined in the Unified VAT Agreement as "everything considered as a supply in accordance with the cases stipulated in Article 8 of the Agreement[7]". The application of Nominal Supplies in the context of business promotional activities will be discussed in Section 7 of this Guideline.

8. **Voucher:** is a term defined for VAT purposes and means "an instrument where there is an obligation to accept it as consideration or part of consideration for a supply of goods or services, and where the nature of the goods or services to be supplied or the identity of the Supplier is specified on the voucher or in the relevant documentation[8]". Vouchers will be discussed in detail in Section 8 of this Guideline.

9. **Face Value Voucher:** is defined as "a voucher issued with a specified monetary value redeemable as shown on the voucher or in any related documentation[9]".

(6) Article 37, Implementing Regulations
(7) Article 1, Unified VAT Agreement
(8) Article 19(3), Implementing Regulations
(9) Article 19(4), Implementing Regulations

10. **Non-Qualifying Voucher:** is not a defined term for VAT purposes; however, it is used in this Guideline to describe any document, instrument, or offer that is commercially described as a "voucher" but does not constitute a voucher within the scope of VAT treatment.

11. **Tax Due Date:** is the date of supply of goods or services, issuance of the tax invoice, or receipt of consideration in part or in full, up to the amount received, whichever is earlier. The "tax due date" differs from the due date for payment of the net tax by a Taxable Person for a full taxable period. See Section 5 for further details.

## 3. Economic Activity and Registration for VAT Purposes

### 3.1. Who is the Person Carrying on an Economic Activity?

An Economic Activity may be carried on by both natural persons and legal persons. Legal persons (such as companies) shall be considered to be carrying on an Economic Activity where such persons conduct a regular activity involving 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. Therefore, specific rules apply to determine whether a natural person falls within the scope of VAT.

Natural and legal persons carrying on an Economic Activity must register for VAT purposes if the registration requirements are met. Such persons must collect the VAT applicable to their activities and remit it to ZATCA together with their periodic returns.

### 3.2. Mandatory Registration

Registration is mandatory for all persons whose annual revenues exceed the mandatory registration threshold. Where a person's taxable supplies during a period of 12 months exceed SAR 375,000 -the mandatory registration threshold- that person must register for VAT purposes[10], subject to the transitional provisions set out in the Implementing Regulations relating to the mandatory registration threshold during the transitional period.

Taxable supplies for VAT purposes do not include the following:

- Exempt supplies, such as financial services qualifying for exemption or real estate supplies.
- Supplies that fall 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 or intangible assets which constitute part of the assets of the business and are assigned for the long term use as a business tool or as an investment vehicle.

(10) Article 3, Implementing Regulations

**In specific cases, other provisions apply to mandatory registration:**

- Non-resident persons who are required to 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 required to collect and remit VAT[11].

## 3.3. Voluntary Registration

A resident person in the Kingdom whose taxable supplies or taxable expenses exceed SAR 187,500, the voluntary registration threshold, during a period of 12 months, may register voluntarily for VAT purposes[12].

## 3.4. Multiple Stores/Branches

A company or legal person may own several stores or branches or may conduct operations under different Commercial Registration numbers. In all cases, the branches of a legal person form part of the same Taxable Person for VAT purposes.

A single Tax Identification Number is issued to the legal person. Where an establishment has multiple Commercial Registrations (such as stores and branches), the Commercial Registration of the head office must be used for registration in the VAT Law. The Tax Identification Number shall apply to all Commercial Registrations of the legal entity.

The provision of goods and services between branches and divisions of the same legal person does not constitute supplies for VAT purposes[13].

Where a Supplier is an enterprise with establishments in multiple countries, the place of residence of the Supplier and its obligations relating to the collection and accounting for VAT on each supply must be determined in accordance with the country most closely connected to that supply.

(11) Article 5(1), Implementing Regulations

(12) Article 7(10), Implementing Regulations

(13) Article 18(1), Implementing Regulations, except for Nominal Supplies, importation of goods, or transfer of goods to another Member State

**Example (1):** A retailer owns stores in both the Kingdom of Saudi Arabia and the United Arab Emirates, all of which form part of a Saudi legal entity. If the retailer fulfills an order for a Customer in Europe from its store in the United Arab Emirates, the retailer shall be considered resident in the United Arab Emirates in respect of that supply.

In such a case, the sale shall not be subject to VAT in the Kingdom and should not be included in the VAT returns filed in the Kingdom. The Supplier must be aware of any tax obligations arising in respect of the sale in the United Arab Emirates.

## 3.5. Deduction of VAT Incurred Prior to the Effective Date of Registration

Subject to the specified conditions, taxable persons are entitled to deduct input tax incurred in connection with certain goods or services where:

- The person incurred and paid VAT in Saudi Arabia on purchases prior to the effective date of VAT registration.
- The goods and services were received for use in the course of an economic activity and constitute inputs related to taxable supplies[14].

The deduction of VAT incurred prior to registration is subject to specific conditions and criteria.

For further details regarding these conditions and criteria, please refer to the Guideline on the Deduction of Input Tax.

(14) Article 49(1), Implementing Regulations

# 4. Imposition of VAT

## 4.1. General Requirements

Companies registered in the VAT Law must impose VAT upon the sale of "taxable" goods or services in the Kingdom. A resident Supplier must charge VAT to the Customer and include it in the tax invoice or notice issued to the Customer[15]. The details of tax invoice requirements will be discussed in Section 12 of this Guideline.

VAT is imposed on all supplies in the Kingdom, most of which are subject to the standard rate of 15%. In certain cases, supplies may be subject to tax at the rate of 0% or may be exempt from tax. Section 4.4 discusses the main categories of supplies in the Kingdom that require the imposition of tax or that qualify for exemption.

In the retail sector, displayed prices must include the amount of VAT. The amount of VAT may be calculated from a tax-inclusive price by applying the fraction (15/115).

**VAT = Consideration Payable (Price Inclusive of Tax) × (15 / 115)**

Supply Value = Consideration Payable (Price Inclusive of Tax) × (100 / 115)

Where the price has been agreed in advance as a non-disclosed price exclusive of VAT, VAT at a rate of 15% must be added to that price.

If the total tax amount or the total taxable value for a supply includes "halalas," the tax amount on the tax invoice must be rounded to the nearest halala.

**Example (2):** Al-Olaya Supermarket charged a tax-inclusive amount of SAR 1,320 to a Customer for the supply of bottled water. The payable tax was calculated as 15/115 of SAR 1,320 (which equals 172.173). The tax invoice must show a VAT amount of SAR 172.17.

For further details on the general requirements, please refer to the General Guideline for VAT

(15) Article 25(2), Unified VAT Agreement

## 4.2. Retail Prices and Discounted Prices

### 4.2.1. Standard Retail Prices

A Supplier generally sets the price it requests as consideration for goods and services. In the retail context, this price may be displayed to the public in-store, through published materials, or online.

In some cases, the Supplier (or a third party, such as the manufacturer) may set a "standard retail price" or a "recommended retail price" for certain goods and services.

In all cases, the price advertised in the local market for goods and services must include VAT[16]. The authority believes this should apply to any prices advertised in print or electronic publications, or displayed to the public in retail stores.

Even where prices are published, the Supplier and the Customer may agree on different terms or prices for the sale of goods and services. In such cases, the tax must be calculated based on the total final consideration paid or payable if it differs from the advertised price (considering the provisions applicable to any supplies subject to fair market value assessment as described in Section 7.1 of this Guideline). In certain cases, the actual consideration charged by the Supplier for the supply may be lower than the standard retail price.

**Example (3):** An electronics store sells outdoor lighting fixtures to the public at a standard retail price of SAR 210 each (this price is tax-inclusive, with SAR 27.4 being VAT). The store agrees with a landscaping developer to sell 20 units of these lights for SAR 3,675.

The store calculates VAT on the total amount due: SAR 479.34 (calculated using the following formula

$$\frac{3,675 \times 15}{115}$$

This amount must be shown on the tax invoice issued to the developer and included as Output Tax in the tax returns.

(16) Article 25(2), Unified VAT Agreement

### 4.2.2. Discounted Prices

A "discounted price" is a commercial term that represents a sale price reduced relative to a previous sale price. In such cases, VAT is payable on the basis of the "discounted" consideration received or payable for the supply.

**Example 4:** A fashion store displays shirts at the "usual" retail price of SAR 250, granting all Customers a discounted price of SAR 200. If a Customer purchases a shirt during the discount period, VAT is calculated on the discounted consideration received (VAT of SAR 26.1, calculated as

$$\frac{200 \times 15}{115}$$

Discounts may also be applied after the Supplier and Customer have agreed on the consideration, or after any of the following events:

- The supply of goods or services has been made.
- The Supplier has issued the invoice.
- Payment of the agreed consideration has been made.

In all cases, the discount represents a reduction in the total amount payable. The Unified VAT Agreement explicitly states:

"The value of the supply is reduced by the following: price reductions and discounts granted to the Customer[17]." .

**Example 5:** A retailer selling televisions advertises a "lowest price guarantee" by selling a TV for SAR 2,200 (including VAT of SAR 286.95, calculated as

$$\frac{2.200 \times 15}{115}$$

(17) Article 26(6)(a), Unified VAT Agreement

Two days later, a Customer returns with proof that the same television is being sold for SAR 2,000, inclusive of VAT, at another store. The store manager grants a discount to match the SAR 2,000 price.

The Supplier must adjust the value of the supply by issuing a credit note to the Customer, reflecting the new price and the revised VAT amount (VAT SAR 260.87, calculated as

$$\frac{2.000 \times 15}{115}$$

#### 4.2.3. Payments to Suppliers by Third Parties

In some cases where goods are sold to Customers at discounted prices, a third party, such as the manufacturer or a promotional company, may make payments to the Supplier to support the promotional activity. The resulting tax treatment may vary depending on the circumstances of each case, as follows:

**Consideration 1: The Third Party Receives a Service from the Supplier**

**Description:**

The Supplier provides a service to the third party in return for consideration, which may be calculated either as a fixed amount over a specified period or based on the number of goods sold at the discounted price.

**Tax Treatment:**

The consideration for the supply of the service is subject to tax separately from the supply of the goods to the Customer.

### Consideration 2: The Third Party Bears Part of the Value of Goods Discounted to the Customer

**Description:**

Here, the third party pays part of the basic supply value, referred to as the "consideration received from a third party." This does not constitute a separate supply but represents direct support by the third party for the supply of goods to Customers.

**Tax Treatment:**

The total value of the supply and the tax due thereon is determined as follows: consideration paid by the third party + consideration paid by the Customer.

Promotional arrangements should be reviewed on a case-by-case basis to determine whether the third party is paying consideration for the supply of the underlying goods or services to the Customer, or whether the payment is in exchange for separate supplies of advertising or promotional services from the Supplier to the third party.

## 4.3. Goods and Services Sold at a Single Price

A supply may include multiple different goods or services provided by the Supplier to the Customer. In many cases, each good or service has an individual value, and these values are added together to calculate the total supply value and total consideration due.

However, in other cases, multiple items (such as goods, services, or any combination of goods and services) are sold at a single price. This section explains how VAT is applied in such cases.

### 4.3.1. Single Supply and Multiple Supplies

The first step is to determine whether the goods and services provided constitute a single supply or multiple supplies. This is particularly important where any element of the supply is not subject to VAT at the standard rate of 15% (for example, where goods or services are zero-rated or exempt).

**Multiple supplies:** are recognized where a package of distinct items (goods or services) is provided, each having a separate value and capable of being enjoyed independently. In such cases, the Customer has the option to purchase each item individually.

**A single supply:** for VAT purposes may be identified if:

- The supply consists of multiple elements, and one element is clearly dominant while the other element(s) must be used as part of the dominant element. The remaining elements may be considered ancillary to the main supply.
- The supply consists of several items that are so closely linked that separating the individual items into distinct supplies would be artificial.

Key factors in determining whether a supply is a single supply or multiple supplies include the nature of the supply, the intentions of the Customer, and the Supplier. Specifically, whether the Customer intends to purchase a primary good or service, or multiple individual components with independent values.

Additionally, if the individual supply items can be purchased separately from different Suppliers, this may indicate that the supply is multiple; however, it is not a definitive criterion.

**Example 6:** A retailer sells a television for SAR 2,200 (including VAT). This price includes a one-year warranty, provided uniformly to all Customers against technical defects. The Customer does not have the option to obtain a lower price by rejecting the standard warranty. Therefore, this supply constitutes a single supply for VAT purposes.

**Example 7:** A Customer wishes to obtain an optional extended warranty and a five-year maintenance and repair contract. The base price for the extended warranty is SAR 500. The retailer offers the television with an extended warranty at a single combined price of SAR 2,500.

Although the warranty must be used in relation to the television, its relative nature and commercial value indicate that the Customer is receiving a separate supply and may choose to pay an additional amount for this distinct supply. This indicates that the consideration relates to two separate supplies.

The Supplier must allocate an appropriate value to the extended warranty and reflect this on the tax invoice issued to the Customer. Commercial documents may also be referenced to determine the intentions of both the Supplier and the Customer, for example:

- Contractual terms (e.g., where individual items are referenced separately in the contract, or priced separately).
- Invoice arrangements (e.g., whether each of the multiple items appears with a separate consideration on the invoice, or only a single dominant item is shown).

Commercial documents are not mandatory in all cases. They may be issued incorrectly, may not include all required details, or may be intentionally manipulated in some cases to achieve a specific tax treatment. ZATCA may also consider other interpretations appropriate based on the commercial substance of the transactions.

### 4.3.2. VAT Calculation for Single and Multiple Supplies

If a single price is set for multiple supplies of goods and services, the supplier must specify the value of each supply separately and calculate VAT accordingly. If the supplier issues a primary tax invoice that includes multiple supplies, the value and VAT amount must be shown for each supply separately.

**In cases where there is multiple supply:**

- If all supplies are subject to the same VAT rate, the tax must be calculated on the total consideration received for those supplies.
- If the different supplies are subject to different tax rates or tax treatments, VAT must be calculated and applied separately on the value of each individual supply.

**Example 8:** A pharmacy sells cosmetics and medicines. Some medicines fall under the list of qualifying medicines, which are subject to a zero percent rate. Cosmetic products sold are subject to the standard rate of 15%. However, qualifying medicines are subject to a zero percent rate. The applicable VAT rate for each category must be clearly stated on the tax invoice.

The value of each individual supply must accurately reflect the relative commercial value of the goods and services provided. Suppliers must not artificially inflate the value of zero-rate and tax-exempt supplies above that of standard-rate supplies. Suppliers must also be able to provide supporting documentation for approved commercial prices upon request by the Authority.

**All supplies included in a single supply:** must be subject to the same tax treatment, that is, either standard-rated, zero-rated, or exempt.

**Example 9:** An individual purchases an electric food processor during a visit to the Kingdom. The Supplier charges a single price of SAR 420 (including VAT) for the processor and grants the Customer access to the Supplier's online content (including recipes, storage tips, and other information similar to what is publicly available).

In this case, access to online content has only nominal value and is clearly ancillary to the main supply of the food processor. The Supplier must apply standard-rate VAT on the supply of the goods in the Kingdom, and no separate value should be allocated to access to the Supplier's online content.

### 4.3.3 Promotional Offers Including "Free" Goods

In some cases, a good or service may be described as "free" as part of a promotional language, yet it is provided as part of a bundle with other goods or services (for example, a retailer sells two identical items and provides a third item "free," or a mechanic provides a "free" safety inspection as part of a vehicle service).

The provision of free items requires analysis to determine whether a Nominal Supply arises. Further details are provided in Section 7.1 of this Guideline.

## 4.4 VAT Rate

### 4.4.1 Zero-Rated Medical Goods

VAT is imposed on nearly all types of domestic supplies, with most supplies subject to the standard rate of 15%.

An exception to this rule applies to the supply of qualifying medicines and medical goods, classified by the Ministry of Health and approved by ZATCA, which are subject to VAT at a zero percent rate[18].

The zero percent rate applies to all supplies of qualifying goods by the Taxable Person at every stage of the supply chain. This includes supplies made by manufacturers, distributors, private healthcare providers, pharmacies, retailers, and Suppliers of qualifying medical goods.

For further details regarding zero-rated medical goods, refer to the Healthcare VAT Guideline.

(18) Article 35, Implementing Regulations. Please refer to ZATCA's website for eligible goods and medicines.

## 5. VAT Calculation

The tax point rules (date of supply) determine the date on which VAT obligations arise and when VAT must be calculated in respect of any supply of goods or services.

Separately, the Taxable Person calculates the net tax payable to ZATCA for each tax period. The date on which net VAT is due is determined by the tax point rules, in addition to the VAT accounting method applied.

Each supply has a separate tax point, which falls within a tax period. In principle, VAT on these supplies is payable to ZATCA as part of the total net tax for the entire tax period, following the submission of the tax return.

The Implementing Regulations stipulate that the net VAT payable is calculated on a presumptive basis by deducting the total Input Tax permitted, including Input Tax on imports, from the total Output Tax payable in respect of all taxable supplies made by the Taxable Person in the Kingdom during the tax period[19].

This VAT accounting treatment is known as invoice-based accounting (see clause 5.2). For small businesses whose annual turnover does not exceed SAR 5,000,000, they may use an alternative basis related to actual payment for the supply, known as cash-based accounting (see clause 5.3).

### 5.1 Tax Point for Supplies

In most cases, VAT is due on the earliest of the following dates, referred to as the tax point:

- The date of supply of goods or services;
- The date of issue of the tax invoice; or
- The date the consideration is received, in whole or in part, up to the amount received[20].

(19) Article 45(1), Implementing Regulations

(20) Article 23(1), Unified VAT Agreement

These rules are applied to most one-off supplies of goods or services, such as retail sales. ZATCA considers a supply of goods or services generally to occur where the Supplier provides goods or services on a non-continuous basis, and the Customer immediately acquires the rights to use the goods or services.

The date of supply for goods and services provided as a "one-off" supply is as follows:

- **Where goods are supplied without transportation or shipment:** the date on which the goods are placed at the Customer's disposal.
- **Where goods are supplied with transportation or shipment:** the date on which the transportation or shipment of the goods commences.
- **Where goods are installed or assembled:** the date on which the installation or assembly is completed.
- **Where services are supplied:** the date on which the performance of the service is completed[21].

Separate rules apply to determine the tax point for goods and services supplied on a continuous basis.

For continuous supplies (supplies of a successive nature) where consideration is payable by installments, the supply occurs on the earlier of the due date of the installment or the date of actual payment. Continuous supplies of services for which payments are not due in fixed installments are treated as taking place on the date of issuance of the tax invoice or the date of payment in respect of those goods or services, to the extent of the amount received or invoiced.

For further details regarding this concept, please refer to the Guideline on Transitional Provisions.

(21) Article 23(2), Unified VAT Agreement

## 5.2 VAT Calculation Using the Invoice Basis

Under the general rule applying the invoice basis of accounting, Output VAT must be declared by the Supplier in the tax period in which the tax point occurs.

Generally, Input VAT may be deducted by the Customer (where applicable) in the tax period in which the tax invoice is issued.

**Example 10:** A furniture store located in the Kingdom files quarterly VAT returns. The store requests a Customer to pay a deposit (advance payment) to purchase a table. The deposit represents 10% of the value of the goods, amounting to SAR 950. The total value of the table is SAR 9,500, inclusive of VAT.

An invoice for the advance payment is issued on 10 December, and the Customer pays the deposit on the same day.

Thirty days later, on 9th January, the furniture store issues a second invoice for the remaining 90% of the amount due (SAR 8,550). The amount of SAR 8,550 is paid by the Customer on 18 January.

The furniture store must account for Output VAT of SAR 123.91, included within the advance payment of SAR 950, in its VAT return for the tax period ending 31 December, and remit this tax to ZATCA.

The furniture store must then account for VAT on the remaining amount (SAR 1,115.22) Included within the value of the final payment of SAR 8,550, in its VAT return for the tax period ending 31st March of the following year.

**Example 11:** An online retailer in the Kingdom, filing quarterly VAT returns, sells a watch on 28th March. The Customer pays online at the time the watch is ordered, and the tax invoice (receipt) is automatically issued. The retailer arranges delivery (transportation) of the watch to the Customer's home address in the Kingdom. Transportation of the watch begins on 1 April, and the Customer receives the watch on 2nd April.

The date of supply of the watch is the date on which transportation commenced (1st April). However, the tax point is 28th March, as the receipt was issued and payment was received before the goods were transported.

The retailer must declare the VAT due on the sale of the watch in the VAT return for the quarterly tax period ending 31st March.

## 5.3 VAT Calculation on a Cash Accounting Basis

The general rule for VAT calculation set out above does not apply to businesses that have been approved to use the cash accounting basis.

### 5.3.1 Application for Approval to Use Cash Accounting

A Taxable Person may apply for approval to use the cash accounting basis, provided that:

- The annual value of taxable supplies in the previous calendar year did not exceed SAR 5,000,000;
- It is not expected that the anticipated value of taxable supplies in the current calendar year will exceed SAR 5,000,000; and
- The Taxable Person has not received notification of any violation during the previous 12 months[22].

A Taxable Person may apply for approval to use the cash accounting basis when registering for VAT or upon obtaining a Tax Identification Number (TIN) from ZATCA.

If the Taxable Person does not elect to use the cash accounting basis at that stage, they may subsequently submit a request to the ZATCA to apply it[23].

ZATCA will notify the Taxable Person if the application is approved and, where applicable, inform them of the effective date of the change from the invoice basis to the cash accounting basis.

(22) Article 46, Implementing Regulations.

(23) Article 46, Implementing Regulations.

### 5.3.2 Reporting Under the Cash Accounting Basis

A Taxable Person using the cash accounting basis:

- Is required to declare and pay Output VAT on sales during the tax period in which payment is actually received from Customers (to the extent of the amount received), regardless of the tax point that would apply under the invoice basis.
- Is entitled to deduct Input VAT on purchases only when payment is made to the Supplier (to the extent of the amount paid).

**The time of supply (tax point) for each transaction does not change merely because the Taxable Person applies the cash accounting basis.**

A Taxable Person using the cash basis must still issue tax invoices in accordance with the general rules, meaning invoices must be issued within 15 days following the month in which the supply occurs (based on the tax point).

Applying the cash accounting basis affects the calculation of the net VAT due to ZATCA. The Authority requires the Taxable Person to complete the VAT return based solely on amounts actually received from Customers and payments actually made for purchases during the relevant tax period.

<table>
<tr><th colspan="3">VAT Return Form Fields</th></tr>
<tr><td>Box No.</td><td>Field Name</td><td>VAT Return (Cash Accounting Basis)</td></tr>
<tr><td colspan="3">VAT on Sales</td></tr>
<tr><td>1</td><td>Standard-rated sales (15%)</td><td rowspan="2">Includes:<br>• Supplies made during the current tax period where payment was received during the current period.<br>• Supplies made in previous periods where payment was received during the current period.<br>• Current supplies paid in advance during the current period, whether the supply has been made or the tax invoice has not yet been issued.<br>• Partial payments received during the current period.<br>Does not include:<br>• Supplies for which payment has not yet been received.</td></tr>
<tr><td>1.2</td><td>Standard-rated sales to government entities (15%)</td></tr>
<tr><td>2</td><td>Sales where the State bears the VAT</td><td rowspan="4">In addition to the above, where Output VAT on the sale has not yet been declared in the VAT return.</td></tr>
<tr><td>3</td><td>Zero-rated domestic sales</td></tr>
<tr><td>4</td><td>Exports</td></tr>
<tr><td>5</td><td>Exempt sales</td></tr>
<tr><td>6</td><td>Total sales</td><td></td></tr>
<tr><td colspan="3">VAT on Purchases</td></tr>
<tr><td>7</td><td>Standard-rated purchases (15%)</td><td>Includes: taxable supplies received where the following conditions are met:<br>• Payment has been made.<br>• A tax invoice has been received during the current period for payment.</td></tr>
</table>

| | | |
|---|---|---|
| 8 | Standard-rated imports (15%) - VAT paid at import | **Includes tax paid to ZATCA on imports during the period** (for transactions accounted under the invoice-based method). |
| 9 | Standard-rated imports (15%) - subject to the Reverse Charge Mechanism | **Includes tax on imports and supplies received from non-resident Suppliers in the Kingdom** (for transactions accounted under the invoice-based method). |
| 10 | Zero-rated purchases | As indicated in Box 7, no Input Tax is claimed on the purchase in the tax return. |
| 11 | Exempt purchases | |
| 12 | **Total purchases** | |
| 13 | Total VAT due for the current tax period | |
| 14 | Adjustments for previous periods | |
| 15 | VAT carried forward from previous periods | |
| 16 | Net VAT payable/ refundable | |

**Example 12:** A specialized store selling office supplies, whose annual turnover exceeds SAR 1,000,000, applies for approval to use accounting in accordance with the cash basis. ZATCA approved its request effective from 1st January 2019, and the store filed the tax return.

During the tax period from January to March 2019, the store made the following categories of taxable supplies:

1. Sale of products for which a tax invoice was issued and the amount was paid;
2. Sale of products for which a tax invoice was issued and the amount was not paid;
3. Sale of products for which a tax invoice has not yet been issued, but the amount was received.

The store declares Output Tax for categories (1) and (3) in Box 1 of the tax return. Category (2) must be declared as Output Tax on the sale later, upon receipt of the amount from the Customer.

During the same tax period, the store incurred the following costs on purchases:

1. Purchase of goods and services for which invoices were received and the amount was paid;
2. Purchase of goods and services for which invoices were received and the amount was not paid;
3. Payment of an advance for inventory purchase orders to be delivered to the store on 15th February 2019.

The store may deduct the tax incurred on purchases; however, it declares only categories (4) and (6) in the tax return ending on 31st March.

The Implementing Regulations determine the rules to be followed for changing the accounting method from cash basis accounting to invoice basis accounting, and vice versa[24].

(24) Article 46, Implementing Regulations

# 6. Adjustment of Consideration

## 6.1 Retrospective Discount

Retrospective discounts are granted after the Customer has paid the full price of the goods or services and after the Supplier has issued the invoice. For example, retrospective discounts are granted to a Customer who pays the full amount due as stated on the invoice within a specified period, or quantity-related discounts granted when a Customer purchases certain quantities from the Supplier within a specified period.

The Supplier must issue a credit note to the Customer to reflect the retrospective discount granted to the Customer. If the Supplier uses the invoice basis accounting method, the Supplier is required to adjust the amount of Output Tax previously calculated to reflect the reduction in the value of the supply. The adjustment to the Output Tax must be made in the period in which the discount is granted or the credit note is issued, whichever is earlier[25].

For further details regarding credit notes and adjustments to Input Tax, please refer to the Guideline on Tax Invoices and Records.

If the Supplier uses cash basis accounting, the Supplier is required to account for Output Tax in accordance with the value received.

If the Customer is registered for VAT purposes, the Customer is required to correct the tax return to reflect the value of Input Tax deducted on the purchased supplies.

**Example 13:** A computer retail store offers a discount of 2.5% to Customers who pay for their products within 30 days of the date of issuance of the invoice. A Customer placed a large order for 100 computers for SAR 24,000 (excluding VAT) on 20th October, and a tax invoice was issued for this amount on the same day. VAT of SAR 3600 is declared as Output Tax by the Supplier in October, and the Customer deducts the same amount as Input Tax.

(25) Article (57), Unified VAT Agreement; Article (54)(1), Implementing Regulations of the VAT Law.

The Customer pays the invoice on 10th November and, therefore, becomes entitled to the 2.5% discount amounting to SAR 600.

The Customer requests that the Supplier issue a credit note in the amount of SAR 600. The amount of VAT charged on the original sale of the computers (SAR 3600) is reduced by SAR 90 (2.5% of SAR 3600). The Supplier must adjust the Output Tax previously declared by SAR 90. This adjustment must be made to the tax return for November.

The Customer must also adjust the amount of Input Tax from SAR 3600 to SAR 3510.

## 6.2. Bad Debts

If the Supplier uses the invoice basis and has not received payment for the supply of goods or services provided, the Supplier may reduce the amount of Output Tax calculated, subject to the following conditions:

1. The Supplier must have previously calculated the Output Tax in its tax return and paid it to ZATCA.
2. The Supplier and the Customer must not be related parties;
3. A period of at least 12 months must have elapsed since the date of the supply;
4. The Supplier must provide a certificate issued by a Certified Public Accountant in the Kingdom, evidencing that the debt has been written off from the commercial books. The Authority may accept any other supporting documentation if the Supplier is not required to appoint an auditor.
5. If the total amounts unpaid by the Customer exceed SAR 100,000, legal procedures must have been taken to collect such debts without result, and evidence thereof must be provided (such as issuance of a court judgment, evidence of the debtor's bankruptcy, or a court order to commence any other formal recovery procedures).

Where an adjustment is made due to payment by the Customer of an amount or partial amount, the amount of Output Tax must be increased again to reflect the additional amount received.

No person using the cash-based accounting method described in paragraph 5.2 may make any adjustment for bad debts.

**Example 14:** A fashion design store sells a dress to a Customer on 1st April 2020 for SAR 14,300, inclusive of VAT. The store issues an invoice for the dress to the Customer and calculates Output Tax at the standard rate (15%) in the amount of SAR 1,865.21 on the sale. By June 2021G, the Customer had not yet paid the price of the dress despite follow-up payment requests and the initiation of legal procedures. The store cancels the debt as a "bad debt" in its accounts and arranges with its certified accountant for a certificate confirming that the debt has been written off. The store then reduces the Output Tax for the tax period ending on 30th June 2021G by SAR 1,865.21.

In January 2022, the Customer pays 50% of the price of the dress (SAR 7,150) to the store. The store must therefore adjust the Output Tax in the period in which the additional payment is received. The additional VAT declared in the amount of SAR 932.60, being the tax included in the amount received of SAR 7,150, is included in the tax return for the tax period ending on 31st March 2022.

# 7. Nominal Supplies

## 7.1. Legal Framework for Nominal Supplies

In addition to the supply of goods or services provided in consideration, the VAT law considers certain transactions that do not involve supplies to third parties in consideration as supplies for VAT purposes. These are known as "Nominal Supplies" A nominal supplies of taxable goods or services is a taxable supply[26].

Nominal Supplies are stipulated in the Unified VAT Agreement and include the cases set out below, provided that the Taxable Person has deducted the Input Tax relating to the relevant goods and services in all cases:

1. **The Disposal of Goods for Purposes Other Than Those of the Economic Activity**, whether for consideration or without consideration. The essential aspect here is that the disposal is made for Non-Economic Activity purposes; for example, for the private benefit of an employee or the employer.
   For further details, please refer to paragraph 7.4 of this Guideline.

2. **Change in the Use of Goods and Their Use for Non-Taxable Supplies.** If goods are purchased with the intention of using them in taxable supplies (and Input Tax has been deducted), and they are subsequently and permanently allocated for use in making non-taxable supplies, such supply is considered a Nominal Supply.
   For further details on this subject, please refer to the Guideline on Capital Assets.

3. **Retention of Goods upon Cessation of an Economic Activity**
   This refers to the Nominal Supply arising as a result of the cancellation of tax registration. The final tax return, which includes the date of cancellation of registration, must include all supplies made upon cancellation of registration, including the Nominal Supply of the enterprise's assets retained at the time of cancellation of registration. The Nominal Supply is calculated based on the fair market value of the assets at the date of cancellation of registration[27].

(26) Article (14), Implementing Regulations for the VAT Law
(27) Article 15, Implementing Regulations

4. **Supply of Goods without Consideration**

The supply of goods (to a related party or non-related party) without consideration is considered, in most cases, a Nominal Supply. However, it is normal for a Taxable Person to supply certain low-value items as part of their business activities. Further details are set out in paragraph 7.3 of this Guideline.

5. **Use by the Taxable Person of Goods Forming Part of Its Assets for Purposes Other Than the Economic Activity**

The use of goods, such as capital assets, for purposes other than the Economic Activity, constitutes a Nominal Supply of services.

For example, a store specializing in gardening tools transfers certain store equipment to the home of the store manager for use in carrying out work in his private garden for six months. Such services are considered a Nominal Supply.

6. **Supply of Services without Consideration**

All various supplies of services provided without charge (also considering the requirements below relating to the deduction of THE Input Tax related to the supply). For example, the purchase of hotel accommodation by a company for an important client. Further details are set out in paragraph 7.3 of this Guideline.

The value of the Nominal Supply is determined according to the purchase value or cost. Where the purchase value or cost cannot be determined, the value of such supplies shall be determined based on their fair market value on the date the Nominal Supply occurs, in accordance with the rules for determining fair market value set out under Article 38 of the Regulations(28). Tax shall be imposed thereon and disclosed in the tax return covering the tax period in which the cessation of activity or cancellation of registration occurred, and the tax due must be paid.

A tax invoice must be issued and retained with the business records for audit purposes and must not be provided to the Customer.

(28) Article 26(4), Unified VAT Agreement; Article 38, Implementing Regulations

### 7.1.1. Exceptions - Cases Not Constituting a Nominal Supply

There are exceptions where the supply is not considered a Nominal Supply:

**A. Low-Value Items:**

The supply of goods such as gifts or samples provided by the Taxable Person, or the provision of other goods and services that promote the person's Economic Activity, is not considered a Nominal Supply. This is subject to an annual limit of SAR 200 per single recipient, or an annual aggregate of SAR 50,000 for that Taxable Person, based on the fair market value of such goods and services(29).

**B. Items on Which Input Tax Has Not Been Deducted:**

A supply is not considered a Nominal Supply in cases where the Taxable Person supplies goods or services without consideration, where that person has borne Input Tax on the direct costs related to the purchase, production, or supply of those goods or services and has not deducted such tax in its periodic returns(30).

**Example 15:** A retailer purchases goods from a Supplier in the Kingdom to provide them as gifts to certain Customers and Suppliers. The retailer knows at the time of purchase that such goods will be used as gift materials (supplies without consideration) and does not deduct the Input Tax on the purchase. Accordingly, the retailer is not required to calculate and declare a Nominal Supply when the items are provided as gifts without consideration.

**C. Free Goods or Services Supplied as Part of Other Supplies:**

This concept is discussed in further detail in Section 7.2 below.

(29) Article 15, Implementing Regulations

(30) Article 15(9), Implementing Regulations of the VAT Law

## 7.2. Free Goods or Services Supplied as Part of Other Supplies

In some cases, a good or service is described as "free" in promotional materials; however, this may not reflect the commercial reality. For example:

1. Goods or services may be supplied together and as an ancillary part of another supply, which is the Customer's principal intended purchase. For example, "free delivery" may constitute an additional element of the sale of a high-value item of furniture. In such case, the free good or service does not represent an independent supply without consideration. Accordingly, the Supplier does not make a Nominal Supply.

**Example 16:** Al-Mina Riyadh Company's activity consists of selling furniture. It receives a large order to supply furniture and provides free delivery to the Customer (within the Riyadh area). The company sells a sofa and two chairs to the Customer for his new home. Al-Mina Company provides free delivery to the Customer's home.

In this case, the facts indicate that there is no independent supply of delivery services. Rather, Al-Mina Company makes a single supply that includes delivery of the goods to the Customer. Therefore, the delivery service should not be shown separately on the tax invoice.

2. "Free" goods or services supplied as part of a bundle of other goods or services sold for a single price.

   For example, a retailer sells two identical goods with a third item "free", and this sale is treated as a discount on the sale of three similar goods (reduced price). In such cases, the consideration relates to all goods and services supplied and must be allocated according to the goods and services provided. No Nominal Supplies arise in these cases.

**Example 17:** Aziz Electronics Company offers a promotional campaign during March 2022. Under this offer, Customers who purchase any new laptop at a price exceeding SAR 3,000 receive a free printer at no additional charge. The company's offer describes the printer supplied upon purchase of the laptop as "free". The price of the printer when purchased separately is SAR 460 (including VAT).

In this example, the facts indicate that the Customer pays a single price but expects to receive two specified goods, the laptop and the printer. Despite the promotional language using the term "free", the Supplier effectively grants a discount on both goods.

A Customer resident in the Kingdom views the promotional offer and purchases a new laptop for SAR 3,450. The Customer pays SAR 3,450 in cash for the laptop and the printer. Aziz Electronics Company issues a tax invoice reflecting the sales. The following table summarizes this invoice:

| Description of Goods | Quantity | Unit Price (excluding VAT) | Tax Rate |
|---|---|---|---|
| Laptop - Model No. 4567 | 1 | SAR 3000 | %15 |
| Standard Printer - Model No. P100 | 1 | SAR 400 | %15 |
| Total | | SAR 3,400 | |
| Less: Discounts - Laptop Promotional Offer for March | | SAR 400 | |
| Total (excluding VAT) (4) | | SAR 3,000 | |
| VAT at (15%) | | SAR 450 | |
| Total Amount Payable | | SAR 3450 | |

The company declares Output Tax in the amount of SAR 450 on this sale. There is no Nominal Supply in this case; therefore, no additional Output Tax is declared.

## 7.3. Goods or Services Supplied Independently without Consideration (Gifts and Samples)

Where a good or service is provided without any consideration due and independently from any other supply made by the Taxable Person to the same recipient, this constitutes a supply without consideration.

Where the tax invoice shows that goods or services are supplied at a value of zero consideration, this indicates that the Supplier intends to make a supply without consideration, independently of any other goods or services shown on the same tax invoice.

**Example 18:** A butcher shop in the Kingdom has a number of Customers who purchase large quantities of high-value meat during 2021. The butcher provides small gifts valued at SAR 1,000, inclusive of VAT, as a token of appreciation to those Customers.

Such gift is independent and not linked to any goods or services supplied by the butcher. If the butcher deducts Input Tax on the purchase, the butcher must calculate Output Tax based on the purchase price of the gift, amounting to SAR 130.43, being 15/115 of SAR 1,000, in the tax return.

If the butcher does not deduct any Input Tax on the purchase of these goods, the butcher is not required to declare them as Nominal Supplies.

Retailers may provide gifts or samples to individuals to promote their products, as mentioned in the example above. The provision of goods without consideration constitutes a Nominal Supply for which the Supplier must calculate tax on the tax return, provided that the rules and conditions relating to Nominal Supplies are satisfied. VAT is calculated based on the Supplier's purchase price or cost, or the fair market value where the purchase price or cost is not ascertainable.

In cases where samples are provided for the promotion of the Supplier's activity, no Nominal Supply arises if:

- The fair market value of the goods supplied without consideration does not exceed SAR 200 excluding VAT per recipient during a single calendar year.
- The annual value of supplies of gifts, samples, and goods provided by the Taxable Person without consideration does not exceed SAR 50,000 during the calendar year, based on the fair market value of such gifts, samples, and goods.

**Example 19:** A diamond retail store purchases diamond rings from a Supplier in the Kingdom to provide them as gifts to important Customers. The store is aware that these items will be used as gifts (goods without consideration) and does not deduct Input Tax on their purchase. Accordingly, the diamond store is not required to declare a Nominal Supply when the gifts are provided without consideration.

**Example 20:** A headphone retail store purchases certain headphones with the intention of resale. These headphones are offered for sale in the store at SAR 250. The store has recovered the Input Tax incurred on its purchase. As part of a marketing campaign, the store decides to grant free headphones to every 100 customers for one week only. The gifts provided to Customers constitute a Nominal Supply by the headphone store to its Customers, and the store must calculate Output Tax at 15% on the Nominal Supplies of the headphones based on the price of SAR 250, amounting to SAR 37.5 per headphone.

## 7.4 Goods Used for Personal Purposes

In cases where goods are purchased by the company and Input Tax has been deducted thereon, but the goods are subsequently used by employees or company owners for personal use or benefit, this constitutes a Nominal Supply. The purpose of this rule is to prevent the deduction of Input Tax on goods used by individuals for personal purposes (including the owner).

If the Taxable Person wishes to dispose of an asset or destroy assets forming part of its business activity, for example, destroying damaged inventory or disposing of unused food, this does not constitute personal use and therefore does not give rise to a Nominal Supply.

# 8. Retail Promotional Offers

## 8.1 Vouchers

### 8.1.1 What is a "Qualified Voucher"?

Vouchers are physical or electronic documents that entitle the Customer to redeem/use them as consideration for goods or services from a Supplier or a group of Suppliers. A voucher is not considered a form of currency but can be exchanged and used as non-cash consideration (showing equivalent monetary value). Generally, a voucher has commercial value only due to the Supplier's commitment to allow it to be redeemed for goods and services.

For VAT purposes, a voucher is defined as: "A voucher constitutes a document if there is an obligation to accept it as consideration or part of the consideration for the supply of goods or services, and the nature of the goods or services to be supplied or the identity of the Supplier is specified on the voucher or related documents[31]."

Vouchers meeting this definition are subject to special VAT rules. For the purposes of this Guideline, vouchers falling under this definition are considered "qualified vouchers." Other commercial documents may be described as "promotional vouchers" but do not fall under the special VAT rules. These "non-qualified vouchers" are explained in detail in Section 8.1.4.

### 8.1.2. Nominal Value Vouchers

Vouchers often include a monetary amount, allowing the amount to be used as consideration for one or multiple supplies. Vouchers with a monetary amount are referred to as "nominal value vouchers."

(31) Article 19(3), Implementing Regulations

### 8.1.3. Issuance and Supply of a Voucher

When a person issues a new voucher, whether for consideration or without consideration, this does not constitute a supply for VAT purposes[32]. A voucher may be issued by the Supplier who will settle it, for example, a voucher issued by a retailer allowing redemption at any of the retailer's stores, or by a third party, such as a shopping center management company issuing a voucher redeemable at any store in the center.

The supply of an existing voucher is not considered a supply for VAT purposes unless the consideration payable for a nominal value voucher exceeds its nominal value. If the amount payable exceeds the nominal value, this constitutes a supply of services to the extent that the consideration exceeds the nominal value.

For more information on the tax treatment of qualified vouchers, refer to the Guideline on Promotional Offers.

### 8.1.4. Treatment of Non-Qualified Vouchers

"Non-qualified vouchers" are other commercial documents described as "vouchers" that do not meet the definition of a voucher for VAT purposes.

Non-qualified vouchers are treated under the standard VAT rules. VAT is calculated on the consideration paid or payable (if any) for the issuance or provision of a non-qualified voucher as a supply of services. Upon redemption, the Supplier must account for VAT based on the total amount paid for the supply of goods or services.

(32) Article 3(19), Implementing Regulations

## 8.2. Loyalty Programs

A loyalty program aims to encourage Customers to make additional purchases in the future. This can be achieved through discounts, free goods and services, other rewards, or exclusive benefits.

There are various types of loyalty programs offered either directly by Suppliers of goods and services or through operators specializing in loyalty programs. The VAT treatment of any loyalty program depends on the individual circumstances and facts of each case.

For more information on the VAT implications of loyalty programs and their application, refer to the VAT Bulletin on Loyalty Program Treatment.

# 9. Inventory

## 9.1. Input Tax Deduction

A retailer is entitled to deduct the Input Tax incurred on inventory purchased or imported for the purpose of resale[33]. Deductible tax is reported in the VAT return and is offset against the tax charged on supplies made during that period (Output Tax).

VAT on the purchase or import of inventory may be deducted in the VAT return for the period in which it was incurred, provided there is an intention and plan to resell the inventory at the time of purchase. It is not a precondition for the purchaser to have actually sold the inventory to claim the Input Tax deduction.

### 9.1.1. Inventory Held at VAT Registration

Taxable Persons are entitled to deduct Input Tax incurred prior to their VAT registration date. This applies to goods and services purchased for use during Economic Activity but not yet used (or sold) on or after the registration date. Pre-registration tax deductions are subject to specified conditions and criteria[34].

The criteria for inventory purchased for resale are as follows:

- The goods purchased or imported must be used in sales of taxable supplies or otherwise as part of the Economic Activity for taxable purposes;
- The goods must not have been supplied by the Taxable Person or fully used (or consumed) by the Taxable Person before the registration date;
- The goods must not be of a type restricted from deduction.

(33) Article 46, Unified VAT Agreement

(34) Article 49, Unified VAT Agreement and Article 49(2)(3), Implementing Regulations

## 9.2. Lost, Stolen, or Damaged Goods

Under normal circumstances, there are no VAT consequences when inventory is lost, stolen, or damaged. The Taxable Person is not required to adjust the original Input Tax claimed on the purchase of goods that are subsequently lost, damaged, or stolen[35].

If inventory is lost, damaged, or stolen before being sold to Customers, this must be recorded in the accounting records maintained to support the Input Tax deduction on the purchased goods[36].

ZATCA may require additional evidence to substantiate the loss, damage, or theft of goods to support the Input Tax deduction, such as a police report or insurance claim documents.

## 9.3. Repairs and Maintenance under Warranty

Manufacturers sometimes provide Customers with a warranty when making a new purchase. The warranty typically covers an initial fixed period during which the goods are expected to perform correctly.

When the manufacturer is requested to repair goods under the warranty, there is no supply for VAT purposes. This includes the provision of new materials as part of the repair process. Since the price paid by the Customer for the warranty is included in the purchase price, it does not constitute a separate supply for VAT purposes, thereby avoiding double taxation.

## 9.4. "On-Order" Inventory

The term "on-order" inventory generally refers to goods that are stored and made available for a specific Customer. These goods are held in the Supplier's warehouse at the Customer's premises or at another nearby facility. Legal ownership of the goods remains with the Supplier until the Customer requests the goods for use.

(35) Article 47(2), Unified VAT Agreement

(36) Article 49(5), Implementing Regulations

## 9.5. Trial Periods

Some retailers may have arrangements with Customers that allow goods to be provided under conditions permitting the Customer to return them at any time until ownership transfers to the Customer. Ownership remains with the Supplier until the Customer decides to retain the goods. In certain cases, a fixed period is specified for the decision to keep or return the goods.

If the goods are returned to the Supplier and the supply is cancelled, the Supplier must adjust Output Tax and issue a credit note in accordance with the procedures set out in Section 6 of this Guidance, as in the case of retrospective discounts[37]. For further information on credit notes and Output Tax adjustments, refer to the VAT Invoices and Records Guidance.

(37) Article 27(1), Unified VAT Agreement

## 10. Special Cases

### 10.1. Second-Hand Goods

VAT allows a Taxable Person to apply the margin scheme to certain second-hand goods. Once eligible second-hand goods are identified, Taxable Persons may choose to calculate VAT based on the profit margin earned on the supply of these eligible second-hand goods to determine the VAT due, instead of calculating VAT on the full consideration received[38].

A Taxable Person must apply to ZATCA for approval to use the margin scheme. In addition, the supply of eligible goods must meet the following criteria:

- The supply must consist of second-hand goods located in the Kingdom;
- The goods must be of a type identified by ZATCA as eligible second-hand goods;
- The goods must have been acquired by the Taxable Person from a supply in the Kingdom made by:
  1. A Non-Taxable Person; or
  2. A Taxable Person selling the goods outside their Economic Activity; or
  3. Another Supplier applying the margin scheme.

If the above criteria are not met, including any supply of second-hand goods not designated as eligible second-hand goods on the supply date, VAT must be calculated under the standard rules, i.e., applied on the total consideration payable.

It is noteworthy that ZATCA has allowed VAT to be calculated on the profit margin for eligible used cars, rather than on the total sale price, effective from 1st July 2023. To apply VAT under the margin scheme for used cars, certain conditions must be met, including that the car is classified as an "eligible used car" by ZATCA, that the car is present in and previously used in the Kingdom, that the seller is registered for VAT purposes and licensed to carry out car trading, and that the licensed trader obtains ZATCA's approval to be considered eligible to apply the margin scheme on eligible used cars.

(38) Article 48(1), Implementing Regulations

## 10.2. International Trade

Special VAT (VAT) rules apply to international trade, particularly with respect to:

- the movement of goods to or from the Kingdom of Saudi Arabia (meaning the import and export of goods);
- services purchased from non-resident Suppliers or supplied to non-resident Customers.

### 10.2.1. Import and Export of Goods

VAT at the rate of 15% shall be imposed on all imports of goods into the Kingdom, regardless of the classification of the goods or the customs duty rate applicable thereto.

Certain exceptions apply to this rule, including specific types of imports under customs duty suspension arrangements (or temporary admission), and the import of goods subject to VAT at the zero rate, such as qualified medicines and qualified medical goods[39], and qualified metals[40]. Import exemptions also apply, such as diplomatic exemptions, military exemptions, and the importation of personal baggage[41].

The export of goods outside the territory of the Gulf Cooperation Council (GCC) shall be subject to VAT at the zero rate, provided that appropriate evidence is retained[42]. In all cases, a supply may not be treated as an export unless both the Supplier and the Customer intend that the goods be transported outside the GCC territory as a result of that supply[43].

The Supplier must obtain the required documentation within 90 days from the date of supply. Accordingly, the Supplier may apply the zero rate at the date of supply if it is expected that the appropriate documentation will be received in the ordinary course of events.

If no documentation is obtained by that date, the Supplier must treat the supply (export) as a domestic supply and apply VAT at the standard rate accordingly.

For further information and details, please refer to the Guideline on Exports and Imports.

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(39) Article 35, Implementing Regulations

(40) Article 36, Implementing Regulations

(41) Article 38, Unified VAT Agreement

(42) Article 34, Unified VAT Agreement

(43) Article 27(1), Implementing Regulations

### 10.2.2. Intra-GCC Trade

The Unified VAT Agreement sets out special rules for the application of VAT to intra-GCC supplies between GCC Member States, aimed at harmonizing the application of VAT on cross-border trade and ensuring that VAT is paid only once on each supply of goods or services. These rules were designed to apply to all six GCC Member States that have implemented a domestic VAT Law, together with the electronic services system for obtaining details of intra-GCC transactions.

As not all GCC Member States had implemented a domestic VAT Law simultaneously with the Kingdom's implementation of VAT on 1st January 2018, nor had the electronic services system been made available by that date, transitional provisions shall apply to the supply of goods to and from the Kingdom in respect of transactions with the remaining GCC Member States, from the date of VAT implementation in the Kingdom until the full implementation of the electronic services system in all GCC Member States.

These transitional provisions shall apply whether the other Member State has implemented a domestic VAT Law.

The special rules shall continue to apply until ZATCA issues a decision confirming the existence of the electronic services system. Until such time, as a transitional measure,

- Goods transported from the Kingdom of Saudi Arabia to another GCC Member State, whether that State has implemented VAT or not, shall be treated as exports of such goods for VAT purposes. Such supplies shall qualify for the zero rate as exports to a non-GCC destination, subject to meeting the conditions and controls for zero-rating exports.
- Goods transported to the Kingdom from another GCC Member State shall be treated as imports of such goods. VAT shall be imposed on such imports in the same manner as imports from a non-GCC country. This shall not affect the status of the goods for customs duty purposes. For further details, please refer to the Guideline on Exports and Imports.
- Services supplied to or from a person resident in a GCC Member State shall be treated as supplied to or from a person not resident in the GCC.

## 10.3. E-Commerce

In cases where a Customer in the Kingdom purchases goods online, the transaction shall be treated as a supply of goods, including the delivery of those goods to the Customer in the Kingdom. The delivery of goods is usually arranged by the Supplier or through the online platform through which the purchase was made. The mechanism for applying VAT depends on the place where the order for the goods is fulfilled.

Under the general rules, a supply shall not be treated as taking place in the Kingdom unless the goods are in the Kingdom at the time the transport to the Customer begins. If the goods are outside the Kingdom at the time the transport begins, the Supplier shall not charge VAT on the sale of the goods. Instead, VAT shall be imposed in the Kingdom at the time of importation(44).

Where the order for the goods is fulfilled from within the Kingdom, meaning that the goods are located in the Kingdom at the time the transport begins, the Supplier must charge VAT in the Kingdom.

Suppliers resident in the Kingdom may supply goods to recipients in other countries through e-commerce. Where the order for goods located in the Kingdom is fulfilled, such supply shall, in principle, be subject to VAT. However, where a resident of the Kingdom exports goods from the Kingdom to a place outside the GCC territory (or to another Member State during the transitional period) as part of the transaction, such supply shall be subject to VAT at the zero rate. For the purposes of applying the zero rate(45), the Supplier must retain documents and evidence proving that the goods were transported from the GCC territory within 90 days of the sale(46).

In general, the date on which VAT becomes due is the date of the supply of goods or services. However, if an invoice is issued earlier, or if payment for the supply is made in advance (as a prepayment), the date of supply for VAT purposes shall be the actual date of payment or the date of issuance of the tax invoice, whichever is earlier(47).

For further information on e-commerce, please refer to the Guideline on Digital Economy.

(44) Article 11, Unified VAT Agreement
(45) Article 34, Unified VAT Agreement
(46) Article 32, Implementing Regulations
(47) Article 23, Unified VAT Agreement

## 10.4. Sales Agents

The special rules set out in the VAT Law in the Kingdom determine how VAT is applied in cases where an agent acts on behalf of a Supplier or a Customer in relation to a supply.

A disclosed agent is an intermediary who acts in the name of the principal and declares its status as an agent to the other party. In such case, the seller makes the principal supply of goods or services to the final Customer. The agent may charge a separate fee to the principal on whose behalf it acts in respect of its agency's services. The principal is treated as the Supplier (in relation to the sales transaction) and as the Customer (in relation to the purchase of the intermediary service).

The VAT Law provides special rules for the application of VAT to an agent who acts on behalf of a principal but in its own name (an "undisclosed agent"). "Where a Taxable Person - in its own name - supplies or receives goods or services on behalf of another person, it shall, for the purposes of applying the Law and the Regulations, be treated as supplying or receiving those goods or services itself"(48).

Accordingly, a Taxable Person participating in the execution of supplies as an undisclosed agent shall be treated as the principal Supplier for VAT purposes. The agent shall be regarded as receiving the supply of goods or services from the seller itself and as supplying those goods or services to the final Customer.

For further details, please refer to the Guideline on Agents.

(48) Article 9, VAT Law

# 11. Deduction of Input Tax

## 11.1. General Principles

A person registered for VAT purposes may deduct Input Tax charged on goods and services purchased or received while carrying out its 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 ZATCA upon the importation of goods into the Kingdom.

Generally, the Input Tax relating to supplies exempt from VAT may not be deducted.

In addition, Input Tax may not be deducted in respect of any expenses incurred that do not relate to the Economic Activity of the Taxable Person (including certain categories of restricted expenses such as entertainment services, cultural services, catering services, and restricted vehicles)[(49)], or any other costs relating to supplies exempt from VAT. Input Tax shall constitute a credit balance to be included in the VAT return and deducted from VAT charged on supplies (Output Tax) made during that period.

Input Tax may only be deducted if 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 ZATCA[(50)].

## 11.2. Proportional Deduction of Input Tax

Input Tax relating to supplies of a Taxable Person that are exempt from VAT, such as exempt financial services or exempt real estate supplies, may not be deducted. Where the supplies of a Taxable Person include both VAT-taxable supplies and VAT-exempt supplies, that person may deduct Input Tax relating to the taxable portion.

(49) Article 50, Implementing Regulations - Restricted Expenses List
(50) Article 49(7), Implementing Regulations

If the Taxable Person incurs general expenses or costs in connection with making both VAT-taxable and VAT-exempt supplies, the person must accurately apportion such expenses and costs to determine the costs relating to the VAT-taxable portion. The Input Tax shall be determined in accordance with the following provisions[51]:

| | |
|---|---|
| Input Tax directly attributable to VAT-taxable sales transactions. | **Full Deduction** |
| Input Tax directly attributable to VAT-exempt sales transactions. | **No Deduction** |
| General expenses and Input Tax that cannot be directly allocated. | **Partial Deduction Based on Apportionment** |

General expenses/costs incurred by a VAT-Taxable Person in making both VAT-taxable and VAT-exempt supplies must be apportioned to properly reflect the use of those costs in the VAT-taxable portion of the Taxable Person's activities.

The proportional deduction shall be calculated based on the value of VAT-taxable supplies made during a specified year using the following default method:

$$\frac{\text{(The value of Taxable Supplies made by the Taxable Person in the last calender year)}}{\text{(The total value of Taxable Supplies and Exempt Supplies made by the Taxable Person during the last calender year)}}$$

The method described above shall not include supplies of capital assets made by the Taxable Person, as this would distort the use of Input Tax.

ZATCA may approve alternative methods for calculating the default proportional deduction based on the value of supplies, where such methods better reflect the actual use of VAT incurred. For further information on VAT deduction and partial VAT recovery, please refer to the Guideline on VAT Deduction.

(51) Article 51, Implementing Regulations

# 12. Tax Invoice Requirements and Other Tax Obligations

## 12.1. Issuance of Invoices

A Taxable Person must issue a basic tax invoice in respect of any taxable supply of goods or services, or any payment made in respect of such supply, before it occurs(52).

There are two exceptions to the basic rule, where a "simplified" tax invoice may be issued instead of a "basic" tax invoice, which is considered appropriate for retail activities(53). This reflects common practical practice involving numerous low-value transactions documented through a simplified invoice or payment receipt that does not require the Supplier to collect and record Customer information.

A simplified tax invoice may be issued in the following cases:

- Where the value of the supply of goods or services is less than SAR 1,000 excluding VAT)(54).
- Where the supplies are made to natural persons who are not Taxable Persons(55). ZATCA accepts the assumption by Suppliers of consumer goods and services that transactions with individuals within the scope of retail constitute supplies to natural persons who are not Taxable Persons, unless the Supplier has reason to believe that the Customer is a Taxable Person or a legal person (for example, based on the value or nature of the goods or services supplied).

A simplified tax invoice must include, at a minimum, the following details(56):

a. Date of issuance: This refers to the date on which the simplified tax invoice is created.

b. Name, address, and Tax Identification Number (TIN) of the Supplier: The legal name of the Supplier and the address of its head office or relevant establishment must be shown, together with the correct TIN of the Supplier.

(52) Article 53(1), Implementing Regulations
(53) Article 56(1), Unified VAT Agreement, and Article 53, Implementing Regulations
(54) Article 53(7), Implementing Regulations
(55) Article 53(9), Implementing Regulations
(56) Article 53(8), Implementing Regulations

The correct VAT TIN is of critical importance, as it enables the Customer to verify the Supplier's VAT registration status (this may be done using the Taxable Persons search tools available on the ZATCA's website or through the VAT Law application).

c. Description of the goods or services supplied: The simplified tax invoice must include details of the goods or services supplied, including the quantity and nature of the goods supplied or the extent and nature of the services provided.

d. Consideration payable for the goods or services: This represents the amount collected or to be collected by the Taxable Person from the Customer or from a third party in consideration for the supply of goods or services, inclusive of VAT.

e. VAT payable or a statement that the consideration includes VAT in respect of the supply of goods or services: The invoice must include either of the following:

- The amount of VAT payable shown in SAR[(57)] (in accordance with the requirements for issuing a basic tax invoice); or
- A clear statement that the consideration payable (in SAR) includes VAT at the standard rate of 15%.

**Example (21):** Green Garden Markets sells food products on a retail basis for SAR 90, plus VAT of SAR 13.5. It may issue a simplified tax invoice showing the VAT amount of SAR 13.5 or issue a simplified tax invoice showing the total consideration due (SAR 103.50) with a clear indication that this amount includes VAT at the standard rate.

A person issuing a simplified tax invoice may include additional information or may issue a tax invoice that meets all the requirements of a basic tax invoice.

For further information on tax invoices and the requirements for issuing them, please refer to the Guideline on Tax Invoices and Records.

(57) Article 56(2), Unified VAT Agreement

## 12.2. Submission of VAT Returns

Every person registered for VAT purposes, or a person authorized to act on its behalf, must submit a VAT return to ZATCA for each monthly or quarterly tax period (as applicable). The VAT return shall constitute a self-assessment by the Taxable Person of the tax due for that period.

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.

For further information on completing VAT returns, please refer to the Guideline on Filing Returns, in addition to the General VAT Guideline.

## 12.3. Record Keeping

All persons subject to VAT 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. This generally includes the following:

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

Records may be maintained in either paper or electronic form, provided that the conditions set out in the Implementing Regulations of the Law are met. Such records must be made available to ZATCA 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 15 years for invoices and records relating to immovable capital assets[58].

(58) Articles 56 and 52, Implementing Regulations

## 12.4. VAT Registration Certificate

A resident Taxable Person registered with ZATCA under the VAT Law must display their VAT registration certificate at their principal place of business, all branches, and electronic channels so that it is visible to the public.

Failure to comply with this requirement will expose the violator to the penalties provided under the Law.

## 12.5. Correction of Previous Errors

If a Taxable Person identifies an error or an incorrect amount in a previously submitted VAT return, or fails to comply with any tax obligation, ZATCA must be notified, and the error must be corrected through an amended VAT return.

Where the error results in a tax difference exceeding SAR 15,000, the Taxable Person must notify ZATCA within twenty (20) days of becoming aware of the error or incorrect value and amend the previous return. For minor errors resulting in a tax difference of less than SAR 15,000, the error may be corrected by adjusting the net tax in the next VAT return[59].

(59) Article 63, Implementing Regulations

## 13. Penalties

ZATCA may impose fines or penalties on taxpayers for violations of the provisions and conditions of VAT outlined in the VAT Law and its Implementing Regulations[60].

### Non-On-Site Violations

| Description of Violation | Associated Penalty |
|---|---|
| Submission of false documents with the intent to evade VAT or to pay less than the VAT due | • Not less than the amount of VAT due.<br>• Not exceeding three times the value of the goods or services. |
| Transport of goods to or from the Kingdom without paying the VAT due | • Not less than the amount of VAT due.<br>• Not exceeding three times the value of the goods or services. |
| Failure to register for VAT within the prescribed registration period | SAR 10,000 |
| Submission of an incorrect VAT return, amending a VAT return after submission, or submitting any document to ZATCA relating to VAT resulting in an underpayment | 25% of the difference between the calculated and due tax; ZATCA may increase up to 50% or reduce to 0% |
| Failure to submit a VAT return on time | 5-25% of the tax that should have been reported |
| Failure to pay VAT on time | 5% of the VAT due for each month or part thereof |
| Collection of VAT without VAT registration | Up to SAR 100,000 |

If any of the above violations are repeated within three (3) years of the date of the final decision regarding the penalty, ZATCA may double the fine for repeated violations.

ZATCA determines the level of the fine or penalty considering the behavior of the Taxable Person and their compliance record, including the taxpayer's fulfillment of reporting errors and cooperation with the ZATCA to correct them.

(60) Chapter 16: Articles 39 - 47, VAT Law

The penalty associated with the violation of "submitting an incorrect VAT return, amending a VAT return after submission, or submitting any document to ZATCA relating to VAT that results in an underpayment of tax" is calculated, as outlined in the table above, according to the following rules:

**First: Increase of the Penalty**

ZATCA may increase the penalty associated with the violation of "submitting an incorrect Tax return, amending a Tax return after submission, or submitting any document to ZATCA related to the Tax due, resulting in an underpayment of the Tax amount" by up to 50% of the difference between the calculated and the due Tax, if one or more aggravating factors apply, as follows:

1. The penalty is increased by 10% if the error in the return is related to a case of tax evasion for which a decision has been issued by ZATCA, in accordance with the provisions of Article 39 of the VAT Law.
2. The penalty is increased by 10% if the taxpayer's compliance record is very weak.
3. The penalty is increased by 5% if the taxpayer's compliance record is weak.
4. The penalty is increased by 5% if the percentage of the difference between the calculated and due Tax, payable or refundable, related to all periods subject to amendment, exceeds 20% for returns related to monthly tax periods, or 40% for returns related to quarterly tax periods.

**Second: Reduction of the Penalty**

ZATCA may reduce the penalty associated with the violation of "submitting an incorrect Tax return, amending a Tax return after submission, or submitting any document to ZATCA related to the Tax due, resulting in an underpayment of the Tax amount" down to 0%, if one or more mitigating factors apply, as follows:

1. The penalty is reduced by 5% if the taxpayer's compliance record is good.

2. The penalty is reduced by 5% if the percentage of the difference between the calculated and due Tax (payable or refundable) related to all periods subject to amendment is less than 5% for returns related to monthly tax periods, or less than 15% for returns related to quarterly tax periods.
3. The penalty is reduced by 10% if the taxpayer settles the difference between the calculated and due Tax within 30 days of the assessment decision issued by ZATCA.
4. The penalty is reduced by 15% if the taxpayer is classified as a microenterprise. For the purposes of these rules, a microenterprise is defined as one whose annual taxable revenues do not exceed SAR 3,000,000 during the 12 months preceding the tax period under review and assessment.
5. More than one mitigating factor may not be combined, except for the payment-related factors specified in these rules.
6. As an exception, the provisions of this section (Second) do not apply to cases where the error in the return is related to a case of tax evasion for which a decision has been issued by the ZATCA.

### Third: Rules for Determining Taxpayer Compliance

ZATCA determines the taxpayer's compliance based on the number of errors in prior Tax returns regarding the timely submission of returns or the timely payment of due Tax, as follows:

1. The taxpayer is deemed to have a good compliance record if no violations have occurred during the preceding 12 months.
2. The taxpayer is deemed to have a weak compliance record if, for monthly filers, more than two and up to six violations occurred during the last 12 months, or for quarterly filers, one or two violations occurred during the last 12 months.
3. The taxpayer is deemed to have a very weak compliance record if, for monthly filers, more than six violations occurred during the last 12 months, or for quarterly filers, more than two violations occurred during the last 12 months.

## Fourth: Cases Exempt from Penalty for Errors in Tax Returns

1. Where 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 the taxpayer is notified of the commencement of audit and review procedures by the ZATCA.
2. If the difference between the calculated and due Tax is less than SAR 5,000.

## Fifth:

If the taxpayer corrects the return through the self-disclosure form after being notified of the commencement of audit and review procedures, for differences exceeding 50% of the calculated and due Tax resulting from the audit and assessment, the penalty is reduced to 10%, and if the taxpayer settles the due Zakat/Tax within 30 days of the assessment notice, the penalty is reduced to 0%.

## Field Violations

All field violations begin with notifying and educating the violator, granting an appropriate period of 30 to 60 days to rectify the violation, except for violations related to 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 imposed to correct the violation. Such penalties are applied consecutively if the violation is repeated.

For reference to the classification of general VAT violations and the violations and penalties specifically related to the provisions of the E-Invoicing Regulation, please refer to the Guideline on Classification of General VAT Violations.

## 14. Request for an Interpretive Decision (Tax Ruling)

If you are uncertain about the application of Tax on a specific activity or transaction you conduct or intend to conduct, after reviewing the relevant statutory provisions and the applicable Guideline, you may submit a request to ZATCA for an interpretive decision, in accordance with the provisions of the Guideline on Requests for Tax Ruling.

## 15. Contact Us

For more information regarding any transaction subject to VAT, please visit the website: **zatca.gov.sa** or contact us at **19993**.

## 16. Frequently Asked Questions

1. **Is it permissible to display product prices on shelves at the original price only, with the Customer paying the original price plus VAT at the cashier?**

   The price displayed on the retail store shelf is the advertised price and must be shown inclusive of VAT.

2. **How are free goods provided to Customers treated under the VAT Law?**

   Separate supplies of goods without consideration are deemed taxable supplies, and the Supplier must account for VAT in their tax return, provided that input VAT on the purchase of such goods is claimed.

   Free goods are not treated as taxable supplies in the following cases:

   - The fair market value of such items does not exceed SAR 200 per Customer per year.
   - The total fair market value of gifts, samples, and other goods provided free of charge by the Supplier does not exceed SAR 50,000 in a single year.

3. **What are the requirements and conditions for applying cash basis accounting?**

   A taxpayer is eligible to apply for approval to use cash basis accounting only if the annual value of taxable supplies in the previous calendar year, and the expected value of taxable supplies in the current calendar year, does not exceed SAR 5,000,000. Approval must be obtained from ZATCA before using this basis.

   Cash basis accounting is intended to support small businesses by allowing simplified VAT calculation for compliance purposes. Taxpayers exceeding this threshold must use the invoice basis, and cash basis accounting cannot be applied.

### 4. How can a taxpayer correct VAT if an incorrect amount has been collected?

Taxpayers must use credit and debit notes to correct incorrect VAT declared in prior invoices:

- **Credit notes:** If the Supplier realizes that excess VAT has been collected from the Customer, a credit note must be issued for the difference.
- **Debit notes:** If the Supplier realizes that less VAT has been collected than the correct amount, a debit note must be issued for the difference.

All credit and debit notes must reference the tax invoice number of the original transaction.

### 5. Is a tax invoice required even if the Customer is not a Taxable Person?

If the Customer is not a Taxable Person and is not a legal entity, a simplified invoice must be issued showing either the VAT amount or a clear statement that the consideration includes VAT. A full tax invoice must be issued for supplies exceeding SAR 1,000 to Taxable Persons or legal entities.

### 6. How is VAT calculated on the invoice? Should VAT be applied before or after discounts?

VAT is applied on the actual value recorded in the invoice, after applying any discounts or reductions.

### 7. How is VAT treated for expired or damaged goods intended for disposal?

No VAT adjustment is required in case of genuine loss, theft, or damage of goods in the ordinary course of business. Taxpayers must retain records to substantiate the loss or damage during audits, including, but not limited to, police reports and insurance claim documents. These records support input VAT deduction on the affected goods.

### 8. How are cash discounts treated under the VAT Law?

If a company offers a cash discount on goods or services, it is treated as a retrospective discount on the original sale price. The Supplier must issue a credit note, after which an adjustment can be made to the output VAT previously declared.

### 9. Are goods sold online subject to VAT, and how is VAT applied?

Yes, goods sold online and delivered within the Kingdom are subject to 15% VAT.

Goods imported from outside the Kingdom directly to a Customer in the Kingdom are also subject to 15% VAT, applied by ZATCA on import. Further details on the application of VAT to the sale of goods online are provided in the Digital Economy VAT Guideline.

### 10. Is VAT applied to products sold at auctions (e.g., used machinery or vehicles)?

VAT application depends on the seller and whether the auctioneer (auction organizer) sells the goods in their own name: VAT applies to all supplies made as part of an Economic Activity, including used goods. If the auctioneer does not take ownership and acts only as an intermediary, no supply is deemed made for VAT purposes (treated as a service). Example: If the auctioneer arranges a sale price for an individual selling a used car, and the individual contracts directly with the buyer, no VAT is charged as the individual is not conducting an Economic Activity.

However, if the buyer cannot identify the seller and no direct or indirect contract exists with the seller, the auctioneer is considered to act in their own name and will be treated as the Supplier for VAT purposes.

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