VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline
For the Healthcare Sector
under VAT Provisionse

Second Edition | May 2026

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

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

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

Amendment log

#	Edition No.	Amendment Date	Section/ Item	Amendment Type	Amendment Description	Remarks
1	2	May 2026	3 4	Amendment	Updating in accordance with the amendments to the implementing Regulations of the Value Added Tax (VAT) Law, issued under Board of Directors Resolution No. (1-4-23) dated 26/11/1444H, corresponding to 15/06/2023	-
2	2	May 2026	7 8	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. (01-06-24) dated 17/05/1446H, corresponding to 19/11/2024	-

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1. Introduction

1.1 Application of the Value Added Tax ("VAT") Law in the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia ratified the Unified 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-Awwal 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-Qi'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) Decision No. (3839) dated 14th Dhu al-Hijjah 1438H/5th September 2017 ("Implementing Regulations"), and as amended by subsequent Board of Directors Resolutions.

1.2 Zakat, Tax and Customs Authority (ZATCA)

Council of Ministers Decision No. (570) dated 22nd Ramadan 1442H/4th May 2021 was issued, providing for the merger of the General Authority of Zakat and Tax and the General Authority of Customs into a single entity under the name of the Zakat, Tax and Customs Authority (ZATCA). The Authority works on Zakat collection and the collection of taxes and customs duties, achieving the highest levels of compliance from taxpayers in accordance with best practices and high efficiency. The Authority seeks to enable the Kingdom to be a global logistics center by facilitating trade, protecting national security, and regulating and managing all activities related to customs work and customs ports, ensuring their advancement to the maximum degree of efficiency, productivity, and competitiveness; this is achieved through providing high-quality services where the focus is on the customer and their service according to 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 the production and distribution chain, with certain exceptions. VAT is applied in more than 160 countries around the world.

VAT is a tax on consumption that is paid and collected at every stage of the supply chain, 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 perform the following:

- Collecting VAT from their customers for every taxable sale transaction according to the specified percentage.
- Paying VAT to the suppliers from whom they received goods or services - if any - for every taxable purchase transaction equivalent to the specified percentage.

When persons subject to VAT sell a good or provide a service, they must impose a tax at the standard rate (assuming the standard rate applies to those supplies) to be added to the final sale price. The taxable persons shall account for the standard rate collected from taxable sales transactions separately from their revenues to be paid later to the Authority. The VAT collected by taxable persons on their sales is called "output tax." Similarly, purchases made by taxable persons are treated where VAT at the standard rate is added to the purchases of goods and services made by persons subject to VAT (assuming the standard rate applies to those supplies), and the VAT they pay to their suppliers is called "input tax."

1.4 This Guideline

This Guideline is intended for all companies, entities, and persons involved in providing healthcare services, suppliers of medicines and medical equipment, medical insurance providers, and service providers related to the healthcare sector.

As this Guideline represents the Authority's opinion regarding the application of the Unified VAT Agreement, the VAT Law, and the Implementing Regulations to the healthcare sector as of the date of this Guideline; this Guideline is considered an advisory guide that does not include, nor is it intended to include, all materials related to the healthcare sector in the Unified VAT Agreement, the VAT Law, and the Implementing Regulations.

2. Definitions Related to Key Terms

Healthcare: The term "Healthcare" is not defined for VAT purposes; however, this term is defined in the Saudi Healthcare Law as follows: "Preventive, curative, and rehabilitative services concerned with the health of the individual and society at its primary, secondary, and specialized levels.[1]" This may involve the provision of related medicines and medical tools as part of the curative or health service.

Government Healthcare Institution: A government institution that provides healthcare services to individuals residing within the Kingdom of Saudi Arabia. This includes hospitals, health centers, and other facilities managed by the Ministry of Health or any other relevant government agency.

Economic Activity: A term referring to activities that fall within the scope of VAT. It includes not only the activities of legal persons but also any other activities practiced continuously and regularly by any person, whether natural or legal. The Unified VAT Agreement defined Economic Activity as follows: "The activity practiced continuously and regularly and includes industrial, commercial, agricultural, professional, or service activity or any use of tangible or intangible property or any other similar activity.[2]"

Private Healthcare Institution: "Every healthcare institution owned by the private sector prepared for treatment, diagnosis, nursing, performing medical laboratory tests, rehabilitation, or for the stay of patients during the convalescence period."[3] Private healthcare institutions in the Kingdom of Saudi Arabia must be licensed by the Saudi Ministry of Health.

The definition of a Private Healthcare Institution in the Private Healthcare Institutions Law includes the following:

1. **Hospital:** Every place prepared for receiving, examining, treating, and caring for patients.
2. **General Medical Complex:** Every place prepared for receiving, examining, and treating patients, where at least three different medical specialties exist, one of which must be a basic specialty (Surgery, Internal Medicine, Obstetrics and Gynecology, Pediatrics, and Family Medicine).

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(1). Article 1, Healthcare Law issued by Royal Decree No. (M/11) dated 23rd Rabi' al-Awwal 1423H/4th June 2002G.

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

(3). Article 1, Private Healthcare Institutions Law, issued by Royal Decree No. (M/40) dated 3rd Dhu al-Qi'dah 1423H/6th January 2003G.

3. **Specialized Medical Complex:** A complex of clinics in one or more medical specialties and its sub-specialties.
4. **Clinic:** Every place prepared for receiving, examining, and treating patients.
5. **Radiology Center:** A place prepared for performing medical diagnostic radiology or radiotherapy.
6. **Medical Laboratory:** A place prepared for performing laboratory tests.
7. **One-Day Surgery Center:** A healthcare institution licensed to admit patients for a medical procedure, such as certain minor and medium surgeries, provided the patient is discharged on the same day.
8. **Supportive Health Service Centers:** Places that provide health or technical services complementary to treatment and rehabilitation, including the following:
    a. Physiotherapy centers.
    b. Medical optics shops.
    c. Medical appliances and artificial limbs shops.
    d. Supportive centers approved by a decision from the Minister of Health as part of health services.
9. **Ambulance Service Center:** The unit that performs ambulance transport and provides emergency services to the patient or injured person before arriving at the hospital, in accordance with the specifications and controls determined by the Saudi Red Crescent Authority.

Qualified Medicines and Medical Goods: These are defined for VAT purposes as follows:[4] "Medicines and medical goods shall be considered qualified in accordance with any classifications that may be issued by the Ministry of Health or any competent authority in the Kingdom." Qualified medicines are defined according to the classifications issued by the Ministry of Health in cooperation with the Saudi Food and Drug Authority. The supply of these qualified goods is subject to a rate of 0% for VAT purposes. This list is updated by the Saudi Food and Drug Authority on a regular basis.

(4). Article 35(2), Medicines and Medical Equipment, Implementing Regulations.

For more information, please visit the website of the Saudi Food and Drug Authority:

- Human medicines subject to 0%
- **https://www.sfda.gov.sa/en/drug/search/pages/default.aspx**
- Vitamins subject to 0%
- **https://www.sfda.gov.sa/en/drug/searchpagesdefaultaspx?PageIndex=1&sm=vitamin**
- Medical devices and equipment qualified for the 0% rate
- **https://mdma.sfda.gov.sa/ListedProducts.aspx**

In this Guideline, qualified medicines and medical goods will be collectively referred to as "Qualified Goods."

Taxable Person: A person who conducts an independent economic activity for the purpose of generating income, and is registered for VAT purposes in the Kingdom or is deemed to be obligated to register for VAT purposes therein.[5]

Person: Any natural or legal person, public or private, or any form of partnership.[6]

3. Economic Activity and VAT Registration

3.1 Economic Activity

Economic activity may be carried out by both natural and legal persons. Legal persons (such as companies) shall be considered to carry on an economic activity where they conduct a regular activity involving the making of supplies. It should be noted that natural persons may undertake 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 where required to do so. Such persons must collect the VAT applicable to their activities and remit the VAT collected to the Authority.

(5). Article 2 Taxable Persons Obligated or Eligible for Registration in the Kingdom, Implementing Regulations.

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

3.2 Activities Carried Out by Government Healthcare Institutions

VAT is imposed on any supplies carried out by a taxable person in the course of their economic activity. However, an activity carried out by a government body in its capacity as a public authority is not considered an "economic activity" for the purposes of implementing the Law and Regulations, provided that all of the following conditions are met:

a. The existence of a legal instrument authorizing the government body to perform the activity.
b. The government body does not conduct the activity according to economic/commercial criteria.
c. The government body conducts the activity exclusively; "exclusivity" means a lack of competition with the private sector, such that no non-governmental entities can perform this activity.

Accordingly, government health institutions are not required to register for VAT purposes unless they engage in activities involving the supply of goods or services that do not meet the conditions mentioned above. In such cases, the government body will be deemed to be conducting an economic activity solely regarding those economic activities, and will consequently be required to register for VAT if it meets the registration terms and provisions (refer to paragraph 3.6 below).

If the government healthcare institution is listed among the eligible persons entitled to recover VAT paid on its purchases, further information regarding eligible persons for VAT recovery is set out in Paragraph 7.3.

3.3 Application of VAT to Fees of Government Healthcare Institutions

VAT does not apply to healthcare services provided by a government health institution to individuals, provided that those services meet the requirements set out in Paragraph 3.2. In such a case, the healthcare services provided are not considered a "supply" for VAT purposes.

A government health institution acting in its capacity as a public authority, in accordance with the requirement set out in Paragraph 3.2 is not required to issue tax invoices in respect of fees that are not subject to VAT. For example, in certain cases, a government healthcare institution may charge individuals a full or partial fee for healthcare services (such as services provided to non-Saudi nationals, or for specific medicines or services).

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(7). Article 9(5) Registration Provisions Applicable in Certain Cases - Implementing Regulations.

Example (1):

A non-Saudi resident visited a public hospital and received the same healthcare services provided to Saudi citizens and paid the full cost of the services. As the services were provided by the government healthcare institution in its capacity as a public authority, in accordance with the requirement set out in Paragraph 3.2, VAT does not apply to the fees charged for those services.

Example (2):

A Saudi citizen visited a public hospital following an accident. The medical consultation was free of charge; however, the patient requested a specialized imaging service. In accordance with the health center's rules established in its public capacity, the Saudi citizen was required to pay a fee for such imaging service. As these partial fees are imposed by a government healthcare institution acting in its capacity as a public authority, in accordance with the requirement set out in Paragraph 3.2, VAT does not apply to the fees charged for those services.

3.4 Suppliers to Government Healthcare Institutions

Government healthcare institutions are not required to apply VAT in respect of supplies of goods and services made by them in its capacity as a public authority, in accordance with the requirement set out in Paragraph 3.2, However, such government institutions shall bear the VAT imposed on supplies of goods and services provided to them by any VAT-registered supplier.

Example (3):

Al Amal Company maintains the medical equipment owned by King Abdulaziz University Hospital. These services are subject to VAT at the rate of 15%.

The tax invoice issued by Al Amal Company to King Abdulaziz University Hospital shall include the following:

Maintenance services	SAR 5,000
VAT at 15%	SAR 750
Total	SAR 5,750

The government healthcare institution may claim recovery of the VAT paid to the taxable supplier under the special VAT refund mechanism applicable to government entities, provided it is eligible for recovery (for further details, please refer to Paragraph 3.7 of this Guideline).

3.5 Other Activities Carried Out by Government Healthcare Institutions

A government healthcare institution may carry out additional activities other than public healthcare activities performed in its capacity as a public authority. Where a government healthcare institution charges fees for activities that fall outside the scope of the requirements set out in Paragraph 3.2., this constitutes the carrying on of an economic activity[8].

Accordingly, the government institution must register for VAT purposes if its taxable revenues exceed the mandatory registration threshold[9]. It shall also be required to apply VAT to taxable supplies not made by the healthcare institution in its capacity as a public authority, in accordance with the general rules applicable to such supplies (see Paragraphs 3.6 and 3.7 below).

For further information, reference may be made to the Guideline on Economic Activity.

Example (4):

A health center operated by a public governmental institution in Riyadh owns a large parking area located near a shopping mall. The health center allows patients to park their vehicles free of charge. It also permits other vehicles to park in that area for a nominal fee. The center generates annual revenue of SAR 1,200,000 from providing parking services to non-patients.

The governmental health center carries out an economic activity, not in its capacity as a public authority, in addition to its non-economic activity. As its revenues generated in the course of conducting its economic activities exceed the mandatory registration threshold, the governmental health center is required to register for VAT purposes solely in respect of the revenues collected from the parking service. The center must apply VAT at a rate of 15% on such supplies. It should be noted that registration for VAT purposes does not affect the tax treatment applicable to non-taxable healthcare activities.

(8). Article 9(5) Registration Provisions Applicable in Certain Cases - Implementing Regulations.

(9). SAR 375,000 effective from 1st January 2019G. For transitional provisions, a higher registration threshold of SAR 1,000,000 applied during the calendar year 2018G. Article 79, Transitional Provisions of the Implementing Regulations.

3.6 Mandatory Registration

Registration shall be mandatory for all persons whose taxable supplies during a period of 12 months exceed SAR 375,000, the "Mandatory Registration Threshold". Such person must register for VAT purposes[10], subject to the transitional provisions stipulated in the Implementing Regulations of the Law relating to the Mandatory Registration Threshold during the transitional period.

Taxable supplies for VAT purposes do not include the following[11]:

- Exempt supplies, such as VAT-exempt financial services or VAT-exempt residential rent.
- 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 assets allocated for long-term business use[12].

In specific cases, other tests shall apply to Mandatory Registration:

Non-resident persons in the Kingdom of Saudi Arabia who are obligated to pay VAT in respect of supplies they make or receive in the Kingdom of Saudi Arabia must register for VAT purposes, irrespective of the value of the supplies for which they are required to collect and remit VAT[13].

3.7 Voluntary Registration

A resident person in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses exceed SAR 187,500, the "Voluntary Registration Threshold", during a period of 12 months may voluntarily register for VAT purposes. Voluntary registration for VAT purposes is preferable where the person wishes to claim a refund of VAT incurred on expenses prior to issuing invoices or making a subsequent supply.

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(10). Article 50, Mandatory Registration, Unified VAT Agreement.

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

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

(13). Article 5, Mandatory Registration of Non-Resident Persons Obligated to Pay Tax in the Kingdom, Implementing Regulations of the Law.

4. Healthcare Services Provided by the Private Sector

4.1 Tax Treatment Applicable to Healthcare Services

VAT at a rate of 15% shall apply to all healthcare services provided in the Kingdom of Saudi Arabia by a taxable private health institution. The Authority assumes that all healthcare services provided through private health institutions are supplied in the course of an economic activity subject to VAT.

VAT shall apply to healthcare services provided by private health institutions on the basis that they are subject to VAT, even where such services correspond to or are similar to the same service that may be obtained from a governmental health institution this is because the tax exemption is restricted to the requirements set out in Paragraph 3.2 and does not extend to non-governmental entities. It should be noted that the State bears the VAT in respect of private healthcare services provided to citizens. For further details regarding the application mechanism, please refer to Paragraph 5.3.3 below.

Example (5):

A patient may undergo a routine orthopedic surgery at a public hospital; however, the patient decided to undergo the procedure at a private health institution. Although the service is the same as that which may be received from the governmental institution, the patient remains obligated to pay VAT on the services received from the private health institution.

Note: Where the recipient of the service is a citizen, the State shall bear the VAT, and the service provider shall issue a tax invoice without charging the VAT amount.

4.2 Bundled Charges for Services and Medicines

Many healthcare services involve the provision of medicines, medical equipment, or other tangible goods supplied to the patient as part of the treatment plan or medical package provided. The 0% rate shall apply only to goods eligible to be subject to the 0% rate where such goods are separated by the service provider.

The private health institution is required to identify the goods eligible to be subject to the 0% rate that are provided to the patient as part of the treatment service. It must specify such supplies in the tax invoices it issues and indicate them as supplies subject to the 0% rate. This does not apply to medicines or low-value medical goods that are consumed or used during the provision of the service.

The private health institution must not artificially value medicines and medical goods subject to the 0% rate at an amount higher than their commercial value. It must adhere to prevailing commercial prices and provide supporting documentation to the Authority upon request.

Example (6):

A taxable dentist in his private clinic fitted a patient with a prosthetic tooth. The service provided by the dentist is subject to VAT at a rate of 15%. However, the prosthetic tooth is one of the goods eligible to be subject to the 0% rate. The dentist issues a detailed invoice specifying the relevant costs and is required to apply the 0% rate to the eligible goods, as follows:

Description	Value (SAR)	VAT (SAR)	Price Inclusive of VAT (SAR)
Dental services • Prosthetic tooth fitting fee • Teeth cleaning and polishing fee	1,200	* 180	1,380
Value of prosthetic tooth (medical goods subject to the 0% rate)	300	0	300
Total	1,500	180	1,680

* Where the recipient of the service is a citizen, the State shall bear the VAT, and the service provider shall issue a tax invoice without charging the VAT amount.

In certain cases, medicines or medical equipment used in the provision of healthcare services are not separately identified by the private health institution where their value is insignificant in comparison to the total value of such services, such as bandages disposed of during surgery. In such cases, the full value shall be subject to VAT.

Hospitals or healthcare centers typically provide numerous healthcare-related goods and services to the patient during the course of treatment. For tax invoice purposes, it is acceptable for the tax invoice to include only the total value and the VAT amount applicable to supplies subject to VAT and supplies subject to the 0% rate[14]. Detailed information regarding the principal services and goods provided to the patient may also be presented.

Example (7):

The following is an example of a simplified tax invoice issued to a patient:

Description	Value (SAR)	VAT (SAR)	Price Inclusive of VAT (SAR)
Healthcare services - 15%	10,000	1,500	11,500
Medicines and medical goods - 0%	3,500	0	3,500
Total	13,500	1,500	15,000

4.3 Invoice

Every taxable person must issue a tax invoice for any taxable supply made, in accordance with the provisions of Article (53) of the Implementing Regulations of the Value Added Tax (VAT) Law, and within the prescribed statutory period.

The tax invoice shall be issued by the healthcare institution to the "contracting customer," defined as the person who entered into the supply contract with the institution. This includes cases where goods or services are provided to a third party or an end beneficiary on behalf of the contracting customer.

In this context, if healthcare services are provided to an end beneficiary based on a contract between the healthcare institution and a third party (such as an insurance company or an employer contracting with a healthcare institution to provide medical services to its employees or contractors), the tax invoice must be issued to the party contracting with the healthcare institution, as they are considered the "customer" for invoicing purposes.

(14). Article 53(5)(H), Tax Invoices, Implementing Regulations.

In cases permitted by the Law, a simplified tax invoice may be issued for the supply of goods or services to an end consumer, provided it meets the statutory requirements set forth in the regulations.

The tax invoice-whether full or simplified, as applicable-must include all mandatory data specified in the Regulations, accurately reflecting the nature of the supply, its value, and the identity of the parties involved.

4.4 Other Fees

When a private healthcare institution registered for VAT purposes collects other fees (in exchange for taxable services not related to healthcare) as part of its economic activities, it must apply VAT to those supplies in accordance with the normal rules.

5. Insurance Claims and Invoicing a Third Party

Health insurance services are subject to VAT at a rate of 15%. The Financial Services Guideline includes a detailed explanation of the tax treatment applicable to insurance policies and insurance service providers. Through this Guideline, the manner in which private healthcare institutions deal with services whose invoices are settled by insurance companies will be discussed.

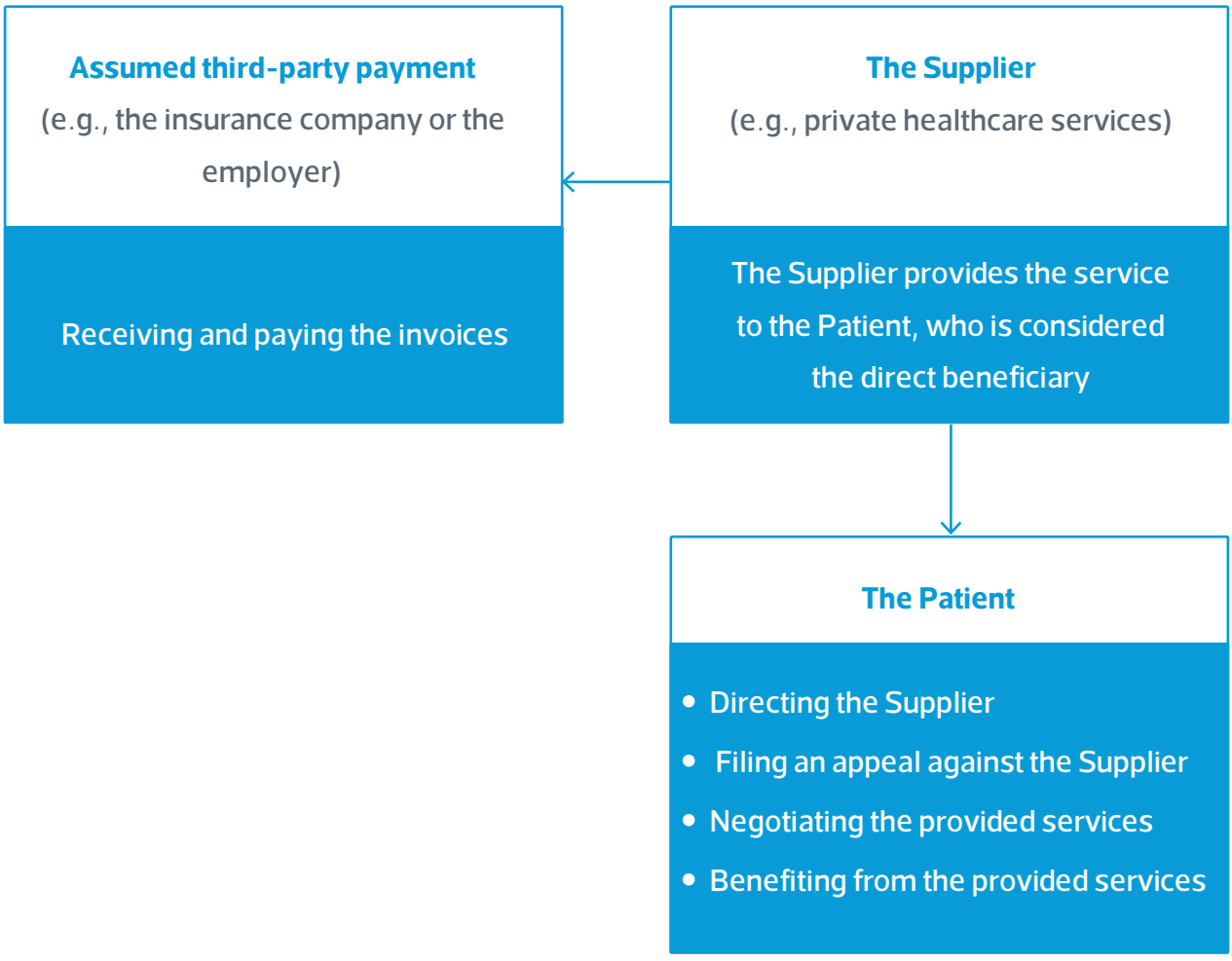
Contractual Status - Who is the Recipient of the Healthcare Service

For VAT purposes, the customer is defined as the person who receives goods or services (i.e., the recipient). In accordance with the general provisions of VAT, the customer is determined according to what is stated in the specific provisions of agreements and contracts, which include the following:

- The person who directs the supplier with respect to the supplies subject of the contract
- The person contracting with the supplier
- The person who has the authority to bind the supplier to execute or apply its contractual duties with respect to the supplies subject of the contract by delivering goods or performing a service

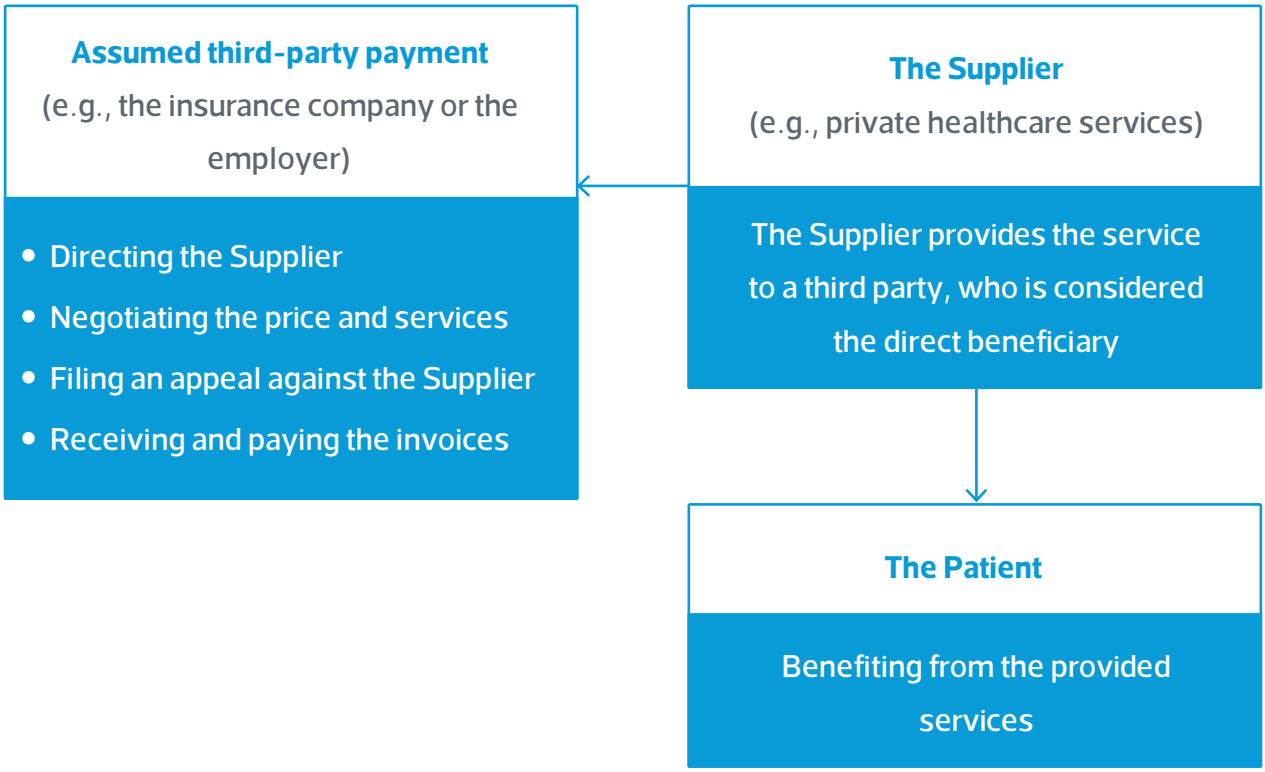
It is clear from this that a person can have the right to benefit from or use goods or services provided under a contract to which they may not be a direct party, despite not being the "customer" as defined for the purposes of applying VAT.

In the specific context of providing healthcare services, the patient is the direct beneficiary of the services, and therefore it is presumed that they are the recipient of the healthcare service and the goods associated with it, unless expressly proven otherwise. This is the case even if the healthcare service provider issues an invoice in favor of a third party, or if the third party is responsible for paying the value of the healthcare services.



According to the diagram above, the Patient is the customer for VAT application purposes.

In some cases, a third party (such as the insurance company or the employer) has the authority to direct the private healthcare institution (the service supplier) to provide healthcare services to specific individuals (the insured/employees) in the context of fulfilling obligations related to the provision of healthcare services. In such cases, the third party can be considered the primary recipient of the service, despite the individuals benefiting directly from those services.



In this diagram, the third party (the insurance company / the employer) is the customer for VAT application purposes.

Example (8):

A factory in the Kingdom invited a private consultant physician registered in the VAT system to the workplace to conduct medical examinations on all of its employees. The factory contracted with the consultant physician to provide these services, where the employee does not pay for those services and does not request additional services. In this case, the employees benefited from the healthcare services, but the factory is considered the customer (recipient of the services) for VAT purposes. Consequently, the consultant physician issues the invoice directly to the factory.

With regard to insurance, the customer (the recipient) is determined based on the authority to direct the healthcare service provider.

Example (9):

Abdullah has an insurance policy from Al-Daman Insurance Company. During his sports practice, Abdullah suffered an injury, and the condition required a visit to a physical therapist. Al-Daman Insurance Company's policy covers the amount of SAR 250,000. Abdullah communicated with a local physical therapy center that is not contracted with Al-Daman Insurance Company to provide physical therapy services to him directly and requested that it send the invoices to Al-Daman Insurance Company. In that case, Abdullah is considered the customer (recipient) of the service.

The specialist requested that Abdullah undergo an operation, the cost of which reached SAR 300,000 in addition to the VAT amounting to SAR 45,000, meaning that Abdullah must pay an amount of SAR 95,000 from his personal account, representing the amount not covered by the insurance policy in addition to the VAT amount.

The center issued the final invoice to Abdullah, with a copy sent to the insurance company, as follows:

Physical Therapy Center Tax Identification Number 30000 11011 00003	**Date: 18th February 2021**		**Invoice Number: 05583 - 2021**
Customer: Abdullah Mohammed	Value (SAR)	VAT (SAR)	Total (SAR)
Consultant services and operations	300,000	45,000	345,000

For the account of the insurance company Al-Daman Insurance			273,809
For the account of the patient			71,190

The VAT paid to the physical therapy center may not be deducted by either Abdullah or Al-Daman Insurance Company, as the customer in this case is Abdullah, who directed the center and requested the treatment, and not the insurance company.

Note: Where the recipient of the service is a citizen, the State shall bear the VAT, and the service provider shall issue a tax invoice without charging the VAT amount.

Example (10):

Issam has an insurance policy from Al-Daman Insurance Company. During his sports practice, Issam suffered an injury, and the condition required a visit to a physical therapist. Although his policy covers that service, the insurance company requested him to visit one of the centers it had previously agreed with and contracted with Al-Daman Insurance Company to provide physical therapy services. The insurance company arranged an appointment with the center, and on March 10, 2018, the physical therapy center provided services to Essam valued at SAR 40,000. On March 15, 2018, the center issued the tax invoice for these services, where Value Added Tax (VAT) was calculated at SAR 2,000 (5%*), bringing the total invoice value to SAR 42,000. Issam did not have any contractual rights with the center regarding the therapeutic services provided to him, and he does not have any obligations to pay any amounts to the center. In this case, the insurance company is considered the customer (recipient) of the service for VAT purposes.

The center issued the final invoice to the insurance company as follows:

Physical Therapy Center Tax Identification Number 30000 22022 00003	**Date: 15th March 2018**		**Invoice Number: 05583 - 2018**
Patient: Issam Mansour			
Customer: Al-Daman Insurance Company	Value (SAR)	VAT (SAR)	Total (SAR)
Consultant services and operations	40,000	2,000	42,000

The invoice is paid in full by the insurance company:

For the account of the insurance company			42,000

The insurance company may deduct the VAT paid to the physical therapy center, as it is the customer (recipient) for the purposes of applying VAT.

(*). **Note:** The tax rate has been changed from 5% to 15% effective July 1, 2020.

5.1 Healthcare Services Invoice

The private healthcare institution must issue the invoices in the name of the recipient of the healthcare services. Tax invoices may not be issued with reference to the name of the insurance company as the recipient of the service if it is not the actual customer (recipient) of the service in accordance with what is clarified above.

In the event that the private healthcare institution provided its services directly to the customer (the patient) but needs to issue a tax invoice to the insurance company to claim payment for these services, it must explicitly specify the customer receiving the service (the patient) on the invoice. The healthcare institution may state separately that the due amount is on the account of or due from the insurance company.

In Example (10), the physical therapy center issued the tax invoice to Abdullah as he is the recipient (customer), including the due amount and the VAT. The center issued a tax invoice and sent it directly to the insurance company, specifying the amount due from the insurance company.

If the private healthcare institution has contracted directly with the insurance company and the insurance company is the recipient for VAT purposes, the private institution must issue a tax invoice to the insurance company as the recipient. In this case, the insurance company is eligible to deduct the imposed VAT as input tax. Whereas the insurance company is not eligible to deduct the input tax if the private healthcare institution contracted directly with the patient (and the insurance company simply paid the amount due from it under the issued invoice).

5.2 Special Cases

5.2.1 Discounted Prices Granted to the Insurance Company

The private healthcare institution may grant discounted prices to the insurance company as part of their agreement to provide healthcare services to the holders of insurance policies issued by that company. In these cases, the VAT is calculated based on the net price after the discount.

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(21). Article 90, Common Customs Law

(22). Article 39, Unified VAT Agreement

5.2.2 Rejection of Invoices by the Insurance Company

In most cases, the insurance company (the customer) conducts a detailed review of the invoice/claim submitted by the healthcare facility (the supplier), which may result in a request to reduce the claim (rejections) under multiple cases/reasons, which are:

1. If the contract between the insurance company and the healthcare facility includes a specific discount on some of the agreed services, such as X-rays, and the healthcare facility did not apply the discount to some of these supplies, the insurance company has the right to request a reduction of the claim. Regardless of naming these adjustments within the rejections or not, they are considered an adjustment to the value of the initial supply in accordance with the provisions of Article 40 of the Implementing Regulations. and the healthcare facility must issue a credit note reflecting the reduction amount and add that as an adjustment in the subsequent tax return as a reduction from the output tax. (Note: this reduction is a result of the non-entitlement of these amounts within the consideration for supplies, and therefore no tax is due on them.)
2. If the claim included consideration for services that were not performed/supplied by the healthcare facility, the insurance company has the right, upon reviewing the claim, to reject these amounts and request a reduction of the claim, and the value of the initial supply is also adjusted in accordance with the provisions of Article 40 of the Implementing Regulations, and the healthcare facility must issue a credit note reflecting the reduction amount, and add that as an adjustment in the subsequent tax return as a reduction from the output tax. (Note: this reduction is a result of the non-entitlement of these amounts due to the absence of a supply, and therefore no tax is due on them).

3. If the invoice/claim included consideration for services that were supplied but are outside the scope of the contract with the insurance company (for example: performing unnecessary X-rays and analyses), noting that this depends on the contractual controls between the two parties. The insurance company has the right, in accordance with the contracted controls, to reject these supplies on the consideration that they were supplied outside the scope of the contract. In this case, the insurance company will not pay these amounts to the healthcare facility. The healthcare facility is supposed to adjust the value of the supply directed to the insurance company and establish the entitlement of these amounts on the patient (the actual customer of these supplies), and consequently the due tax that was declared by the healthcare facility will not be reduced, and the output tax will not be adjusted in the subsequent tax return given that the provided services were actually supplied. From the accounting side, this may require transferring the due debt from the name of the insurance company to the name of the patient, as the tax remains due from the date of supply.

In the event that the consideration for the service is not collected from the patient and this debt is written off from the books and records of the healthcare institution, it may adjust the value of the output tax related to this written-off debt, provided that 12 months have elapsed from the date of supply and in accordance with the conditions for adjusting the output tax on uncollected debts set forth in the Implementing Regulations(15).

It should be noted that in cases where the patient receiving the services rejected by the insurance company is a Saudi citizen, VAT is not collected from him in accordance with the Royal Decree stipulating that the State bears the VAT on behalf of citizens with respect to private healthcare services (please refer to Section 5.3.3 of this Guideline). In cases where the insurance company is the customer (recipient) under the contract concluded with the private healthcare institution and the insurance company requested adjusting the value of the issued invoice, the private institution may subsequently adjust the price to reflect the actual value of the performed and agreed-upon services.

It should issue a credit note as documentation to prove the price adjustment, along with clarifying the adjusted tax value. The note must include the serial number of the original invoice and include the data required to be included in the tax invoice(16), along with settling the due tax in its relevant tax returns.

(15). Article 40, Adjustment to Value of a Supply, Implementing Regulations

(16). Article 54, Credit and Debit Notes, Implementing Regulations

Example (11):

After applying the fees by the physical therapist, as in Example 11 above, the insurance company reviewed the file and discovered that the agreed-upon prices were not used. The insurance company requested adjusting the invoice to reflect the agreed-upon discount, which is 25%. The physical therapy center issued a credit note as follows:

Physical Therapy Center Tax Identification Number 30000 22022 00003	**Date: 22nd September 2021**		**Credit Note Invoice: 001345**
Patient: Issam Mansour			
Customer: Al-Daman Insurance Company	Value (SAR)	VAT (SAR)	Total (SAR)
Consultant services and operations	10,000	4,500	14,500
Amount refunded to the insurance company			14,500

5.2.3 Mechanism for the State Bearing VAT on Private Healthcare Services Provided to Citizens

In application of Royal Order No. A/86 issued on 18th Rabi' Al-Thani 1439H/5th January 2018G stipulating that the State bears the VAT on behalf of citizens benefiting from private (non-governmental) healthcare services, and in accordance with the VAT Implementing Regulations, private healthcare services are subject to the standard tax rate of 15%, and the Regulations have detailed the procedures and mechanisms followed for tax collection, including the issuance of tax invoices that include the due tax amount.

The private healthcare services covered by the Royal Order mean all healthcare services provided by hospitals and medical centers licensed by the Ministry of Health, and they include cosmetic operations and services.

It is also necessary to differentiate between the healthcare services stipulated in the Royal Order, and the goods and products associated with the provision of healthcare services such as medicines, eyeglasses, equipment, tools, and medical supplies, as the Royal Order applies only to healthcare services without the goods and products associated with them, and the relevant tax treatment applies to the products and goods, in accordance with the statutory VAT provisions. In accordance with the mechanism agreed upon with the Ministry of Health, private healthcare facilities registered in the VAT system will issue tax invoices to Saudi citizens regarding the value of healthcare services provided to them without VAT after verifying the identity of the service recipient, and these facilities must retain the national identity data of the service recipient within their records to submit them to the Authority upon request, and the facility must also include the citizen's data in the invoice issued by it to the citizen, including the national identity number and contact information, with the facility declaring the supply value in the field designated for the application of the Royal Order in the tax return prepared on the Authority's website without paying the due tax on this supply, while declaring the remaining supplies not covered by the Royal Order in accordance with the standard procedures.

The application of the Royal Order applies only to Saudi citizens, and its scope of application does not extend to the non-Saudi wife of a citizen, the non-Saudi husband of a female citizen, the children of a Saudi female citizen, or the citizens of the Gulf Cooperation Council. As for the private healthcare services provided to non-citizens, private healthcare facilities must issue tax invoices that include VAT at a rate of 15% in accordance with the VAT Law and its Implementing Regulations.

Accordingly, private healthcare facilities must, upon filing their tax return to the Authority, include the transactions pertaining to non-citizens and subject to the standard rate of 15% in the "Local sales subject to the standard rate" item, while the transactions pertaining to citizen beneficiaries of healthcare services are included in the "Sales to citizens (private healthcare services, private education, first home)" item.

Facilities operating in this sector and registered for VAT have the right to deduct the due tax on inputs in accordance with the provisions of the VAT Law and its Implementing Regulations.

6. Medicines and Medical Equipment

The Authority has adopted the decision of the Saudi Food and Drug Authority regarding considering the following medicines and medical goods eligible to be subject to the 0% rate:

- All pharmaceutical preparations, medicines, vitamins and minerals, or health or herbal preparations, whether human or veterinary, registered or unregistered, and manufactured locally.
- All pharmaceutical preparations, medicines, vitamins and minerals, or health or herbal preparations, whether human or veterinary, registered or unregistered, imported and for which a clearance permit is issued by the Saudi Food and Drug Authority in accordance with their respective customs item.
- Registered and locally manufactured medical devices and products.
- Imported registered medical devices and products for which a clearance permit is issued by the Saudi Food and Drug Authority in accordance with their respective customs item.

6.1 Supply of Qualifying Medicines and Medical Equipment

The 0% rate applies to all supplies of qualifying medicines and medical equipment determined by the Saudi Ministry of Health or any other relevant authority[17]. The updated lists of these qualifying medicines and medical equipment can be accessed through the website of the Saudi Food and Drug Authority via the following link:

- Human medicines subject to 0%
- **https://www.sfda.gov.sa/en/drug/search/pages/default.aspx**
- Vitamins subject to 0%
- **https://www.sfda.gov.sa/en/drug/searchpagesdefaultaspx?PageIndex=1&sm=vitamin**
- Medical devices and equipment qualified for the 0% rate
- **https://mdma.sfda.gov.sa/ListedProducts.aspx**

(17). Article 35(1), Medicines and Medical Equipment, Implementing Regulations.

The supplier is responsible for determining the goods qualifying to be subject to the 0% rate and subsequently applying the appropriate tax treatment to them. The supplier must have the proofs that support the correctness of applying the tax treatment to these goods, as they may be requested to submit these proofs as part of the tax audit by the Authority. In addition to that, the supplier must issue tax invoices for all supplies subject to the 0% rate of qualifying medicines and medical equipment. The 0% rate will be applied to qualifying goods of medicines and medical equipment in accordance with the classification issued by the Ministry of Health and approved by the Authority. Accordingly, the 0% rate is applied to these supplies at every stage of the supply chain by the taxable person, to include the supplies made by each of the following:

- Manufacturers
- Importers
- Distributors
- Private healthcare institutions
- Pharmacies
- Retailers
- Suppliers of used medical goods

VAT is not imposed on supplies of qualifying goods provided by a governmental healthcare institution not registered for VAT purposes, or by any other person not registered for VAT purposes. The 0% rate applies to supplies of qualifying goods regardless of the purpose of their use. It is also not necessary for the final recipient or the final user to obtain a medical prescription or to verify the medical use of that good.

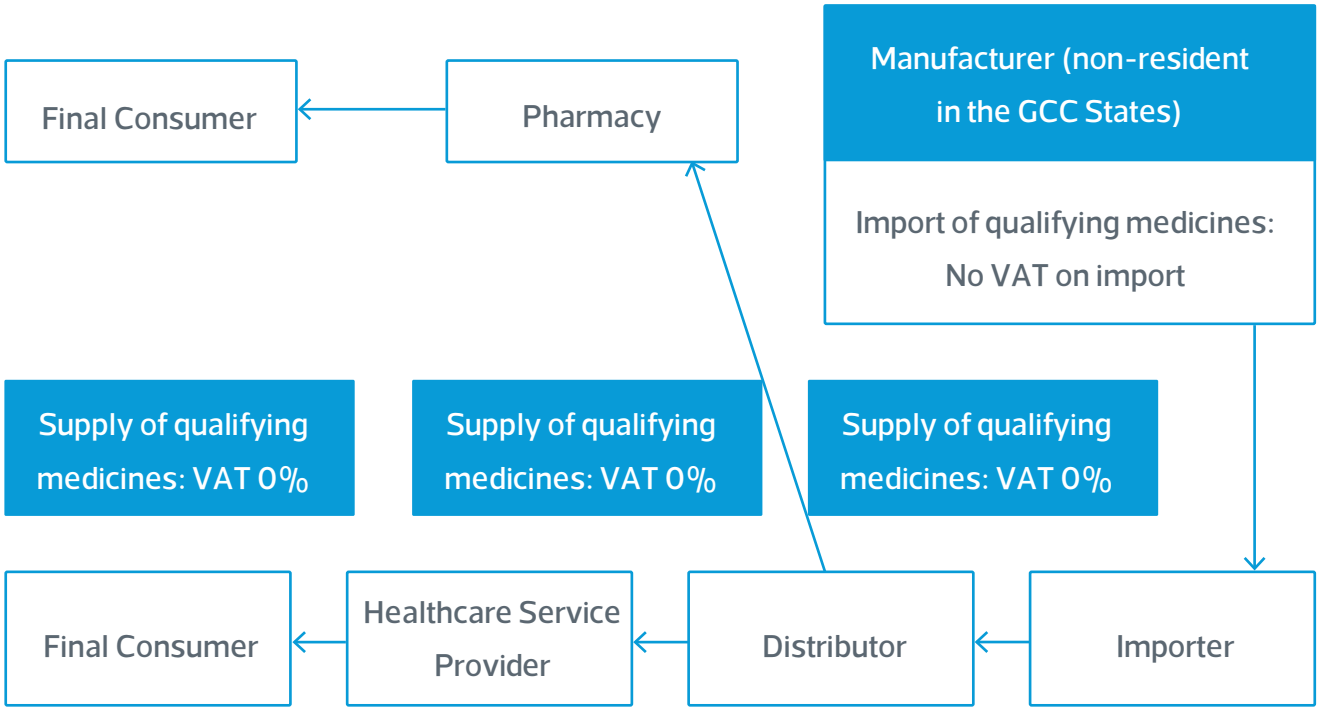
6.2 Imports of Qualifying Medicines and Qualifying Medical Equipment

Imported goods subject to the 0% rate are exempt from VAT upon import into the Kingdom[18]. Consequently, VAT does not apply to the import of qualifying medical goods from outside the Kingdom. This exemption does not affect the customs duties that must be applied in accordance with the standard customs rules.

The impact of the exemption is that VAT is not collected on the import of these qualifying medical goods by the Authority. This does not affect the deduction of the input tax borne by the importer.

The importer of the qualifying goods must ensure the application of the correct tax treatment upon import.

(18). Article 38, Exemption upon Import, Unified VAT Agreement



6.3 Unqualified Medicines and Medical Equipment

The import of unqualified medicines and medical equipment is subject to VAT at the standard rate in accordance with the normal rules applicable to taxable supplies made in the Kingdom of Saudi Arabia.

6.4 Special Cases

6.4.1 Consignment Goods

Suppliers of medicines or medical equipment usually provide pharmacies and healthcare providers with an inventory of medical goods as "consignment goods". In that case, the medical goods are in the possession of the recipient for the purpose of selling to a third party and not for owning them, with the supplier retaining the legal ownership of those goods until the date the recipient (the buyer) notifies the supplier of the sale, where the ownership is transferred on this date from the supplier to the recipient, the sale is recorded, and the ownership is transferred to the buyer.

For VAT purposes, the tax is due on the sale of goods stored as consignment goods on the date of supply of the goods, the date of issuance of the tax invoice to the recipient, or the date of receiving the consideration, whichever is earlier. The date of supply of the goods is the date they are placed at the disposal of the recipient[19]. If an invoice is not issued and the consideration is not received before the supply of the goods, the supplier must issue a tax invoice specifying the tax rate applicable to the goods (whether 0% or 15%) no later than 15 days from the month following the month in which the consignment goods were delivered and placed at the disposal of the recipient, even if the ownership does not actually transfer until a later time.

6.4.2 Free Samples

Suppliers of medicines and medical equipment may provide free samples of these medicines and equipment to healthcare service providers or individuals with the aim of promoting their products. The provision of medicines or other goods without consideration is considered a deemed supply, and, therefore, the supplier must calculate the VAT on those supplies in its tax return if the terms and conditions specific to deemed supplies are met.

The VAT is calculated based on the purchase price or cost by the supplier, or on the basis of the fair market value if the purchase price or cost is uncertain, and then the VAT is applied at the appropriate rate. It should be noted that the deemed supply of supplies of qualifying medicines and medical equipment is also subject to the 0% rate[20].

The deemed supply does not apply to any samples provided by the supplier in the context of promoting its business if[21]:

- The fair market value for each separate sample or all samples does not exceed an amount of SAR 200 per recipient in 1 year
- And the fair market value of all gifts, samples, and other goods provided without consideration during 1 year by the supplier is less than SAR 50,000.[22]

(19). Article 23(2), Date of Tax Due on Supplies of Goods and Services, Unified VAT Agreement

(20). Article 39(1), Value of Specific Taxable Supplies, Implementing Regulations.

(21). Article 15(2), Nominal Supply, Implementing Regulations

(22). Article 15(3), Nominal Supply, Implementing Regulations

Example (12):

A medical products supplier registered in the VAT system supplied low-cost samples to distributors without consideration to promote its products, where it provided 4 samples in 2021:

Description	Cost of each sample (SAR)	Quantity of samples provided in 2021	Total cost of samples (SAR)
Special adhesive bandages (qualifying goods)	15	1,000	15,000
Goods bearing its trademark, a cholesterol testing device (unqualified)	350	20	7,000
Cosmetic moisturizer (unqualified)	50	400	20,000
Heart medicine (qualifying)	400	5	2,000

In this example, the supplier distributed free samples for 1 year with a market value of SAR 49,000 and a cost of SAR 44,000, meaning that the market value of these free samples did not exceed the annual limit of SAR 50,000. Accordingly, the deemed supply does not apply to the total samples supplied during the year, but the free supply of the cholesterol testing device is considered a deemed supply, as its fair market value exceeded the amount of SAR 200.

As this good is not qualifying, VAT must be applied at a rate of 15% to this supply, and the supplier must include this deemed supply in the total output tax for the VAT return period during which this supply was made.

With regard to the supply of the heart medicine (qualifying), its fair market value exceeded the amount of SAR 200 during the year, and accordingly, it is considered a deemed supply and subject to tax at the 0% rate as it is a qualifying medicine.

In total, VAT will be paid at a value of SAR 52.5 based on the cost of the device (SAR 350 x 15%) for each device, meaning a total of SAR 1,050 (20 x SAR 52.2) for all devices, and this tax is due on the deemed supplies of those devices during that year.

7. Deduction of Input Tax

7.1 General Conditions

A person registered for VAT purposes may deduct the input tax imposed on the goods and services that they purchase or receive while carrying out their economic activity. Input tax may be deducted on:

- VAT imposed by a supplier registered in the Kingdom
- Self-accounted VAT by a person registered for VAT purposes in accordance with the reverse charge mechanism
- VAT on imports paid to the Authority upon importing goods into the Kingdom

As a general rule, input tax related to supplies exempt from VAT may not be deducted. In addition, input tax may not be deducted for any expenses incurred that are not related to the economic activity of the taxable person (including some forms of restricted expenses such as entertainment services and vehicles[23], or any other costs related to supplies exempt from VAT.

Input tax serves as a credit balance that is included in the VAT return and is deducted from the VAT imposed on the supplies (output tax) made during that period. Input tax may be deducted only if the taxable person has a tax invoice or customs documents proving the value of the due tax (or any alternative document proving the amount of input tax paid or payable, subject to the approval of the Authority).

With regard to the supply of qualifying medicines and medical equipment, the supplier may deduct the input tax incurred on the expenses and costs borne by it in the course of making these supplies, as they are subject to tax at the 0% rate.

Example (13):

A medicine factory in the Kingdom purchased carton packaging used in the packing and packaging of some of the medicines it produces. Noting that all the medicines produced by the factory are included in the list for qualifying medicines and medical equipment. Accordingly, the factory has the right to deduct the input tax on the packaging in its tax return related to the supply period.

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(23). Detailed list of restricted goods included in Article 50 of the Implementing Regulations

7.2 Capital Assets

Capital assets are the assets owned for a long period for the purpose of commercial investment, such as the medical equipment that healthcare service providers purchase. The prior deduction of VAT may be permitted based on the intended use at the time of purchase.

Taxable persons must monitor the use of movable tangible capital assets and intangible capital assets for a period of 6 years and make annual adjustments to the prior deduction of the tax if the actual uses of the assets change from deductible to non-deductible and vice versa(24).

The equipment purchased by a private healthcare institution in the healthcare sector is usually used to perform services subject to VAT at the standard rate, such as X-ray equipment, magnetic resonance imaging, and others. Consequently, if the capital assets are not subsequently used for private purposes during the period of their useful life, no adjustments are made to them.

Example (14):

The owner of a private healthcare institution purchased specialized electronic equipment to use it in works related to healthcare and claimed the deduction of the input tax in full. After 1 year, the equipment was released in a new model, and the owner purchased this new model and transferred the old one to his home for his personal use. In this case, the owner must adjust the asset for personal use over the remaining period of the useful life.

In all cases, the use of all assets must be monitored, and the appropriate records must be retained to submit them to the Authority upon its request when conducting the tax audit.

7.3 Refund Claims from Governmental Healthcare Institutions

The Authority allows designated persons who do not carry out an economic activity, or who carry out a specific economic activity, to apply for a refund of the VAT paid on the supplies of goods or services received in the Kingdom of Saudi Arabia. This is in accordance with the provisions of Article 70 of the Implementing Regulations, and in accordance with the list of qualifying persons issued by the Minister of Finance.

The qualifying persons will be able to request a refund of the VAT incurred in the course of carrying out their public activities by submitting a specific form for that to the Authority. The tax is not allowed to be refunded in accordance with this mechanism for the input tax paid on the supplies received by the person while carrying out activities in a commercial capacity(25).

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

(25). Article 70(9), Tax Refund to Designated Persons, Implementing Regulations

8. VAT Reporting

8.1 Date of Supply

With regard to the supply of healthcare services, VAT is due on the date of completion of the execution of the service[26]. However, if payment is made or a tax invoice is issued by the supplier before this date, the VAT becomes due on the date of payment or the date of issuance of the invoice, whichever is earlier.

There are some healthcare services that are provided on a continuous basis, such as rehabilitation, that may be provided by a private healthcare facility. In such cases, VAT is due on the date of issuance of the invoice or the date of actual payment, whichever is earlier, and each payment is considered a separate and successive supply[27].

8.2 Application of VAT

When a resident supplier makes a supply, it bears the responsibility to register for VAT purposes (if necessary) and impose VAT at the appropriate rate. The supplier must issue a tax invoice for each supply on which VAT has been imposed. If services are supplied from a non-resident supplier to a resident recipient registered for VAT purposes in the Kingdom, the supplier does not impose VAT, and the recipient bears the responsibility of declaring the VAT (according to the imposed rate) through the VAT return via the reverse charge mechanism.

8.3 Filing of VAT Returns

Every person registered for VAT purposes, or the person authorized to act on its behalf, must file a VAT return to the Authority for each monthly or quarterly tax period. The tax return is considered a self-assessment by the taxable person of the due tax for that period.

Monthly tax periods are mandatory for persons subject to VAT whose annual revenues exceed the amount of SAR 40,000,000, while the standard tax period for the remaining persons subject to VAT is 3 months.

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

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(26). Article 23(2), Date of Tax Due on Supplies of Goods and Services, Unified VAT Agreement

(27). Article 20(2), Date of Supply in Specific Cases, Implementing Regulations

8.4 Record Keeping

All persons subject to VAT must retain appropriate tax records related to the calculation of VAT for audit purposes. This includes any documents used to determine the due VAT for each transaction and in the VAT return. This generally includes the following:

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

Records may be retained in paper or electronic form, provided that the conditions specified in the Implementing Regulations of the Law are met[28]. These records must be available to the Authority upon request. All records must be retained for at least the basic retention period, which is 6 years, and the minimum retention period extends to 15 years regarding invoices and records related to capital assets[29].

8.5 Tax Obligations

Every taxable person must assess its tax obligation and comply with the conditions and obligations of VAT, and this includes registering for VAT purposes when necessary, accurately calculating the net amount of tax payable, paying the tax on its due date, as well as retaining all necessary records and cooperating with the Authority's employees upon request.

If you are not sure of your tax obligations, you must communicate with the Authority through the website **zatca.gov.sa** or other communication means, and you may also request to obtain external consultation from 1 of the qualified consultants.

(28). For more details, please refer to Article 66(3), Records, Implementing Regulations

(29). Article 59, Retention Period for Tax Invoices, Records, and Accounting Documents, Unified VAT Agreement, Article 52, Capital Assets, Implementing Regulations, and Article 66, Records, Implementing Regulations of the Law

8.6 Correction of Previous Errors

If a taxable person discovers an error or inaccuracy in the amount included in a submitted tax return, or a failure to comply with any tax obligation, the Authority must be notified, and the error must be corrected by amending the tax return. If the error is of the type that results in a tax difference in favor of the Authority with a net value exceeding SAR 15,000, the taxable person must notify the Authority within 20 days of becoming aware of this error or incorrect value and amend the previous return .

As for small errors resulting in a tax difference in favor of the Authority of less than SAR 15,000, the error may be corrected by adjusting the net tax in the subsequent tax return.

For more information regarding the correction of errors, you may refer to the website **zatca.gov.sa**.

(30).Article 63, Correction of Returns, Implementing Regulations.

9. Penalties

The Authority may impose penalties or sanctions on taxpayers in relation to violations of the provisions and conditions of the VAT Law and its Implementing Regulations[31].

Non-Field Violations

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

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

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

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

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

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

First: Increase of the Penalty

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

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

Second: Reduction of the Penalty

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

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

Third: Rules for Determining Taxable Person Compliance

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

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

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

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

Fifth

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

Field Violations

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

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

10. Request for an Interpretive Decision (Tax Ruling)

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

11. Contact Us

For more information about VAT treatment, kindly visit our website: **zatca.gov.sa**, or contact us at the following number: 19993

12. Frequently Asked Questions

1. A patient holding a medical insurance policy bears a certain percentage of the treatment costs and pays part of the invoice. The hospital issues two invoices, one for the patient and another for the insurance company. Can the percentage collected from the patient be considered as collected amounts not subject to VAT, and, therefore, the tax is only imposed on the invoice issued to the insurance company? And can the tax be divided between the patient and the company?

For VAT purposes, the customer is the person who receives the supply of goods or services. This is determined through the concluded contracts, which clarify: the person who gives instructions to the supplier, the person who enters into a contract with the supplier, or the person who has contractual rights with the supplier to receive goods or obtain services. In all cases, the hospital must subject the total value of the healthcare service provided by it to VAT at a rate of 15%, whether one invoice is issued for the total value to the insurance company or an invoice is issued to the insurance company and a separate invoice to the patient.

2. How will pharmacies be able to calculate VAT at the 0% rate or at the 15% rate on their supplies?

All supplies of qualifying medicines and medical equipment are subject to the 0% rate. Meanwhile, all supplies of other medical goods are subject to the standard rate. In all cases, the pharmacy must separate the items included in the invoice into items subject to the 0% rate and items subject to the 15% rate.

3. Insurance companies usually delay the payment of hospital claims. How will VAT be calculated in these cases?

For VAT purposes, the tax due date is the earlier of the date of invoice issuance, the date of collection of consideration, or the date of completion of performance of services. In the event that the performance of services is completed, the tax becomes due regardless of the date of collection of claims from insurance companies, and the hospital must declare the due tax for these services in its periodic returns.

Taking into account that the terms of payment and collection between the hospital and the insurance company are considered commercial matters between the contracting parties.

4. How will the tax treatment be conducted for payments made by hospitals to the surgeon in exchange for his services?

In the event that the contract between the hospital and the physician is on the basis that he is an employee of the hospital, any amounts paid to the physician are considered a salary or bonus from the employer to its employee in accordance with the Labor Law and shall not be subject to VAT.

In the event that the contract with the physician is in his capacity as a private service provider (not an employee of the hospital) and he is a resident of the Kingdom and registered for VAT purposes, the physician is obligated to impose VAT on his services provided to the hospital. Accordingly, determining the appropriate tax treatment is the responsibility of the physician and not the hospital.

If the physician is not a resident of the Kingdom, the hospital is obligated to calculate the VAT on the services performed for it by him in accordance with the reverse charge mechanism.

5. We are a medicine warehouse registered for VAT purposes in the Kingdom, and we distribute free samples of our products to pharmacies throughout the Kingdom; are those samples subject to VAT?

If these samples are within the list of qualifying medical goods subject to VAT at the 0% rate, no tax is due on these free samples.

In the event that the samples are for medical goods not included in the list of qualifying medical goods, they are subject to VAT at a rate of 15% in accordance with the deemed supply rules stipulated in the Implementing Regulations.

6. We have an agreement to perform surgical operations for patients for a lump sum amount without any details regarding the services and medicines used during the patient's stay for treatment at the hospital, and the invoice consists of a single item in the name of the operation and its amount. How will the treatment be regarding the medicines and medical supplies used?

The invoice must be divided into separate items, whereby the medicines and equipment qualifying to be subject to the 0% rate must be separated from the medical services subject to the standard rate. In the event of non-separation, the total value shall be subject to VAT at the standard rate.

7. We are a medicine factory in Dammam and registered in the VAT system. We provide some medicine warehouses in the Kingdom with our products as consignment goods. Are these goods subject to VAT, and how will they be treated?

For VAT purposes, the tax is due on the sale of goods held on a consignment basis on the date of supply of the goods, or the issuance of the tax invoice to the medicine warehouse, or the date of receiving the consideration, whichever is earlier. The date of supply is the date on which the goods are placed at the disposal of the warehouse, and the tax invoice must be issued no later than 15 days from the month following the month in which the supply took place, even if ownership is not actually transferred until a later time. The factory must determine the tax rate applied to these goods (whether 0% or 15%) in the invoice issued by it to the warehouse.

8. Will hospitals be able to apply the transitional provisions by imposing the 0% rate on their contracts with specialist physicians registered in the VAT system?

Yes, this is possible provided that all conditions for applying the transitional provisions by imposing the 0% rate are met. Given that the private hospital and the physician are registered for VAT purposes in the Kingdom, and the contract was signed between them before 30th May 2017, and the contract did not anticipate the application of VAT, and there is the possibility of full input tax deduction by the hospital for the physician's taxable services performed for it, provided the hospital provides the physician with a written confirmation thereof; accordingly, the registered physician may apply the 0% rate to his services until the date of the contract's expiration or its renewal.



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