



Guideline

On Supplies of Services to Non-GCC Residents under VAT Provisions



The Zakat, Tax and Customs Authority has issued this Tax Circular to clarify certain treatments related to the implementation of the statutory provisions in force on the date of its issuance. The content of this Circular 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 Circular, where applicable, considering the relevant statutory provisions. If any clarification or content contained in this Circular 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 Circular on the Authority's official website.



Amendments

#	Version Number	Date of Amendment	Section/ Item	Type of Amendment	Description of Amendment	Notes
1	2	May 2026	Entire Guideline	Amendment	Updated in accordance with the amendment to Article 33 pursuant to Board of Directors Resolution No. (24-06-01) dated/19th November 2024.	-



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1. Introduction

1.1 Application of VAT 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") by Royal Decree No. (M/51) dated 3th Jumada al-Awwal 1438H/30th January 2017. Based on the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia issued the Value Added Tax Law ("VAT Law") by Royal Decree No. (M/113) dated 2nd Dhu al-Qi'dah 1438H/25th July 2017, as well as the Implementing Regulations of the VAT Law by Resolution No. (3839) dated 14th Dhu al-Hijjah 1438H/5th September 2017 (the "Implementing Regulations") issued by the Board of Directors of the General Authority for Zakat and Income Tax (formerly) (currently "the Zakat, Tax and Customs Authority") and amended by subsequent Board resolutions.

The Zakat, Tax and Customs Authority

The Zakat, Tax and Customs Authority was established under the Council of Ministers' Decision to merge "the General Authority of Zakat and Tax" and "the General Customs Authority" into one Authority. The Authority undertakes to collect Zakat, taxes, and customs duties while achieving the highest level of taxpayer compliance possible in accordance with best practices. The Authority is also responsible for organizing and managing all activities connected to ports and customs operations in order to achieve the highest level of compliance, productivity, and competitiveness. This aims to assist the Kingdom in developing into a significant global logistics hub by promoting trade and maintaining national security.

1.2 About this Guideline

This guideline is intended for all natural and legal persons who are engaged in economic activities and subject to VAT. It aims to provide further clarification regarding the tax implications of supplies made to persons residing outside the Gulf Cooperation Council countries ("GCC countries").

The provision of services to non-GCC residents - and as a transitional measure to all persons residing outside the Kingdom - is subject to special rules with regard to the application of VAT. In cases where services are supplied in the Kingdom according to the rules of the place of supply of services, and this supply is provided to a non-GCC resident, then the supply is subject to VAT at a rate of zero percent⁽¹⁾. In this regard, it should be noted that the application of the zero percentage

(1) Article 33, Implementing Regulations for Value Added Tax



is limited to specific cases and is subject to certain exceptions stipulated in this regard⁽²⁾.

This guideline provides guidance to taxable persons who supply services to non-GCC resident customers, and as a transitional measure to all non-Kingdom residents. A diagram is added to the appendix included in this document, with the aim of giving a clarification of how to apply the relevant concepts to all cases.

2. Key Terms

"Customer": is a defined term for VAT purposes, being: "A Person who receives Goods or Services"⁽³⁾. Additional context on the identification of the customer is provided in Chapter 4 of this Guideline.

"GCC Territory": Is a defined term for VAT purposes, being: "All territories of the GCC Member States."⁽⁴⁾ For the purpose of this guideline, this must be read in conjunction with transitional provisions requiring that Member States of the Gulf Cooperation Council have introduced VAT and have an Electronic Services System in place with the KSA⁽⁵⁾.

"Member State": Unless the context dictates otherwise, references in this Guideline to a "Member State" refer to a Gulf Cooperation Council State which has introduced VAT and has an Electronic Services System in place with the KSA⁽⁶⁾.

"Non-GCC Resident": For the purposes of this guideline, this term refers to any Person that is not Resident of any Member State. This means the person cannot have any fixed establishment or Place of Residence in any Member State, even if the Person is also Resident in a non-GCC country.

"Place of Residence": Is a defined term for VAT purposes, being: "The location of Place of Business or any other type of Fixed Establishment. In the case of a natural person, if he does not have a Place of Business or Fixed Establishment, it will be his usual place of residence. If a Person has a Place of Residence in more than one State, the place of residence will be considered to be in the place most closely connected with the supply."⁽⁷⁾

In practice, this means that a residence of a legal person can be created by:

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- (2) Please note that these exceptions only apply to subjecting services provided to non-GCC residents to the zero rate.
 - (3) Article 1, Definitions, Unified VAT Agreement
 - (4) Article 1, Definitions, Unified VAT Agreement
 - (5) Article 79, Transitional provisions, Implementing Regulations
 - (6) Article 79, Transitional provisions, Implementing Regulations
 - (7) Article 1, Definitions, Unified VAT Agreement



- The main establishment or head office; or
- Any other permanent location, with appropriate human and technical resources, from which the business is carried out. This may include a branch or other establishments of a corporate entity established outside the Kingdom, provided that such branch or other establishments are the most closely related to the supply in question.

"Resident": A person is considered a resident of a country if they do not have a place of residence there, according to the Uniform VAT Agreement.

"Special Cases": Supplies of Services which are considered 'Special Cases' under the Place of Supplies rules in Section 2, Articles 17-21 of the Unified VAT Agreement.

"Supply of Services": Is defined for VAT purposes, being:

Any form of supply for consideration in accordance with the Unified VAT Agreement, that does not constitute a Supply of Goods⁽⁸⁾.

"Unified VAT Agreement": The Common VAT Agreement of the States of the Gulf Cooperation Council (GCC).

3. Place of Supply of Services

Article 33 allows for the application of a zero percent tax rate to service supplies made within the Kingdom. If the place of supply of taxable services within the Kingdom generally subjects that supply to the standard tax rate, it may be subject to a zero percent tax rate if the provisions of Article 33 are applied. However, if the place of supply is outside the Kingdom, the supply will be outside the scope of VAT.

Therefore: If the place of supply is in the Kingdom, this may affect the application of the zero percent rate in cases where the place of supply for certain categories of services is determined by an exception to the general rule. Chapter 5.1 of this guideline provides additional details on the application of the zero percent rate to "special categories" of services.

Therefore: Before analysing whether the zero-rate provided in Article 33 of the Implementing Regulations applies to a supply of services, the supplier must consider if the place of supply of the services is in the KSA.

(8) Article 7, Unified VAT Agreement



The country in which a supply takes place is determined in accordance with "Place of Supply" rules set out in the Unified VAT Agreement. As a general rule, a supply of services made by a KSA resident supplier will also have a place of supply in the KSA, and will be subject to KSA VAT rules⁽⁹⁾. However, there are exceptions where the place of supply differs to this general rule.

3.1. Exception Based on Customer's Residence: Supplies to Taxable Persons

The first case concerns services supplied to Taxable Persons who are Resident in any other Member State, and registered for VAT in that other State. The place of supply for these services is the Member State where the Customer has its Place of Residence⁽¹⁰⁾.

This exception applies only after the full implementation of GCC VAT, provided that:

- Any member state that has not implemented VAT or does not have a system for electronic services in place with regard to the Kingdom will be treated as a country outside the GCC territory in accordance with the provisions of the agreement. Inter-territory supply that takes place with that country will be considered as if it took place in a country outside the GCC territory, and persons residing in that country will be treated as residents outside the GCC territory.

Please note this exception does not apply to services which are provided to a non-GCC Resident. The place of supply for services supplied by a Saudi-Resident Supplier to a non-GCC Resident Customer is in the KSA (unless any one of the Special Cases outlined in Section 3.2 apply). Services supplied to a non-GCC Resident Customer are therefore generally subject to KSA VAT, but may qualify for zero-rating.

3.2 Exception Based on the Nature of Services: Special Cases

In addition to the general rule of place of supply, which is based on the supplier's or customer's place of residence, certain services ("Special Cases") may require exceptions/special rules regarding place of supply due to the nature of the service. The Agreement stipulates five main categories subject to special provisions as follows:

(9) Article 15, Place of Supply of Services, Unified VAT Agreement. Note that in the case where the supplier has multiple establishments, the supplier's place of residence will be the country most closely connected with the supply.

(10) Article 16, Unified VAT Agreement. Article 21, Implementing Regulations.



1. Leasing Means of Transport to Non-Taxable Customers:⁽¹¹⁾
2. Supply of Goods and Passenger Transportation Services:⁽¹²⁾
3. Supply of services which are closely linked to Real Estate:⁽¹³⁾
4. Telecommunications services and electronically supplied services:⁽¹⁴⁾
5. Other services, which are considered to take place at the place of actual performance:⁽¹⁵⁾
 - a. Restaurant, hotel and catering services.
 - b. Cultural, artistic, sport, educational and recreational Services: the place of supply of these services is in the place of actual performance, when they are charged for as admission to an event at a physical location, or educational services provided in a physical location.⁽¹⁶⁾
 - c. Services relating to transported Goods supplied to a Non-Taxable Customer residing in another Member State

Services which are supplied in the KSA by virtue of these five Special Cases are also exceptions to the default zero-rate for services supplied to Non-GCC Residents. These exception cases are discussed in more detail in Section 5 of this Guideline.

4. Application of Zero-Rate to Services Supplied to a Non-GCC Resident

The first paragraph of Article 33 of the Implementing Regulations applies the zero-rate to services supplied to a non-GCC resident, subject to the four exceptions outlined in the second paragraph (discussed in Chapter 5 of this Guideline).

Article 33: Services provided to non-GCC residents

With the exception of the second paragraph of this Article, a Supply of services made by a Taxable Person to a Customer without a place of residence in any Member State is zero-rated.

(11) Article 17, Unified VAT Agreement

(12) Article 18, Unified VAT Agreement

(13) Article 19, Unified VAT Agreement

(14) Article 20, Unified VAT Agreement

(15) Article 21, Unified VAT Agreement

(16) Article 1(25), Implementing Regulations



4.1 Who is the Customer?

In most cases, identification of the Customer, being the person who receives the Services, is a straightforward matter.

However, identification of the Customer may be complex when the supplier interacts with different persons in respect of the same supply, particularly in cases where there are many legal persons in the Customer's corporate group, or in commercial arrangements where one person agrees to arrange for services to be provided for the benefit of many.

As many different commercial circumstances are possible in practice, ZATCA does not consider that a single test is appropriate to determine the Customer for VAT purposes. However, ZATCA considers that the following factors are most likely to indicate which Person is considered the Customer:

- The Person who enters into a contract with the supplier;
- The Person to whom the supplier owes obligations;
- The Person who instructs the supplier to supply the goods or services;
- The Person who receives, or who the parties intend will receive, the deliverable, output, or the performance of the services directly from the supplier.
- A person who is obliged to pay the value of the supply and tax in normal cases.

4.2 Is the Customer a Non-GCC Resident?

If services are supplied to a Non-GCC Resident, the zero-rate applies to the supply unless one of the exceptions in Chapter 5 applies.

Services provided to Customers who are Residents in other GCC States are subject to special transitional considerations for the purpose of applying VAT.

Any Customers who are Residents in a GCC state that does not have an Electronic Services System in place with the KSA are considered to be Non-GCC Residents⁽¹⁷⁾.

(17) Article 6(79) and 8(79), Implementing Regulations



Example	Does the Customer's member state have a VAT system?	Has ZATCA announced that the Customer's member state has an ESS in place with the KSA?	For KSA VAT purposes, Customer is considered to be a:
A	no	no	Non-GCC Resident
B	Yes	no	Non-GCC Resident
C	Yes	Yes	GCC Resident

In Examples A and B above, the zero-rate for services provided to a Non-GCC Resident may apply in principle, because the Customers are deemed to be Non-GCC Residents.

In example C, the zero-rate cannot apply as the Customer is a GCC Resident⁽¹⁸⁾.

4.3 Exempt Services Supplied to a Non-GCC Resident

The zero-rate will also apply in cases where a supply of services would have been exempt if provided to a KSA Resident from a domestic supply⁽¹⁹⁾.

Example (1):

An insurance company established in the KSA provides life insurance to a customer who does not have any establishment or place of residence in any GCC Member State. This supply would have been exempt from VAT if provided to a KSA customer. However, the services are subject to the zero-rate if provided to a Non-GCC Resident (provided that none of the exceptions apply).

5. Exceptions to Zero-Rate

This section of the Guideline discusses each of the four exceptions to zero-rating outlined in Paragraph 2 of Article 33 of the Implementing Regulations.

The first paragraph of this Article will not apply in any of the following instances:

1. If the place of supply of the service is in any Member State under the Special Cases listed in articles seventeen to twenty-one of the Agreement. This does not include services supplied separately from services whose place of supply is in any Member State in accordance with any of those Special Cases to which they may be directly or indirectly related.*

(18) Place of Supply will depend on whether the Customer is a Taxable Person and should be determined in accordance with Articles 15 and 16 the Unified VAT Agreement, Article 13 of the KSA VAT Law and Chapter 4 of the Implementing Regulations.

(19) Article 31, Implementing Regulations



2. If the Customer receiving the services is resident in any Member State,
3. If the Customer or any other Person related to the Customer benefits directly from the supplied services when that Customer or Person is situated in a Member State, and the related Person is not permitted to deduct the input tax on such services in full;
4. If the services are performed in a tangible way in relation to tangible Goods which are located within a Member State during the Supply.

5.1 Services Subject to the Special Cases for the Place of Supply

The zero-rate for services provided to a Non-GCC Resident cannot apply in case the place of supply is within the KSA based on any of the Special Cases mentioned in Section 3.2 of this guideline.

- **Leasing Means of Transport to a Non-Taxable Customer⁽²⁰⁾**

This Special Case is expected to typically apply to the leasing of vehicles to individuals

- **Goods and Passenger Transportation Services⁽²¹⁾**

This includes the freight transport of Goods, the transport of passengers, and transport related services. Please see the Transportation Guideline for a description of transportation and transport-related services and the application of these terms in the KSA.

- **Supply of Real Estate Related Services⁽²²⁾**

These are services which "affect or are related to a specific area of real estate", and include "services such as those supplied by Real estate agents, auctioneers, architects, surveyors, engineers and others involved in matters relating to Real Estate"⁽²³⁾. Please see the Real Estate and Professional Services Guidelines for more details and application.

- **Supply of Wired and Wireless Telecommunication Services and Electronically Supplied Services⁽²⁴⁾**

This includes many electronically provided services and content delivered over electronic

Article 33 of the Implementing Regulations was amended by Board of Directors Resolution No. (01-06-24) dated 19th November 2024.

(20) Article 17, Unified VAT Agreement

(21) Article 18, Unified VAT Agreement

(22) Article 19, Unified VAT Agreement

(23) Article 23, Unified VAT Agreement

(24) Article 20, Unified VAT Agreement



networks. However, it is important to note that content-related services that are delivered through a telecommunications network or via the internet will not constitute as electronically supplied services. For more detail and examples, please see the Telecommunications and Digital Economy Guidelines.

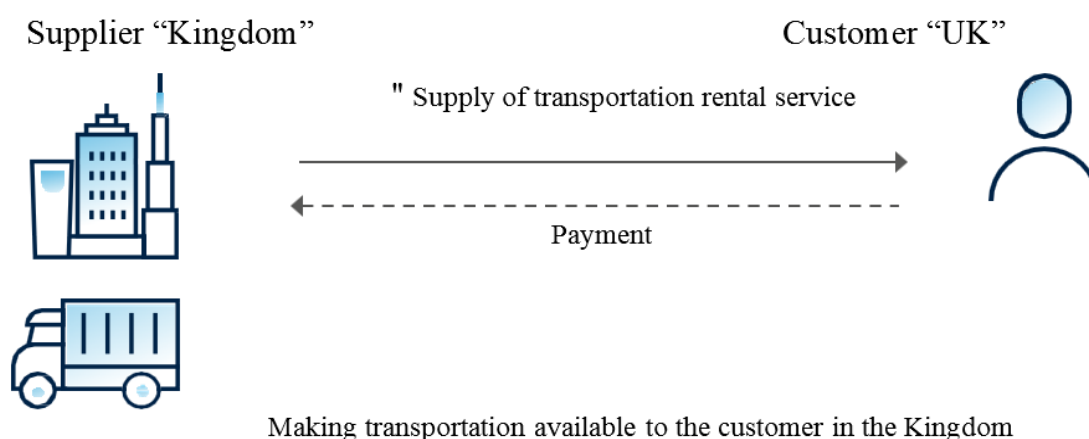
- **Restaurant, hotel, catering, education, and other services that are supplied in the actual place of performance⁽²⁵⁾**

Please see the Professional Services and Recreation & Entertainment Guidelines for further details, clarifications, and examples.

Example (2):

A Saudi vehicle rental company rented a vehicle to a business visitor residing in the United Kingdom at King Khalid International Airport in Riyadh. This service falls under the Special Cases of the place of supply, where the place of supply is always in the country where the vehicle is carried out, available to the customer, the Kingdom of Saudi Arabia. Therefore, in this case, a zero-rate cannot be applied to the supply of the vehicle rental service.

For clarification, the customer also obtains, under this example, the direct benefit of the rental service in the Kingdom, as does the exception stated in Article 33(2)(c) - which was discussed in Chapter 5.3 of this Guideline, to restrict the application of the zero-rate.

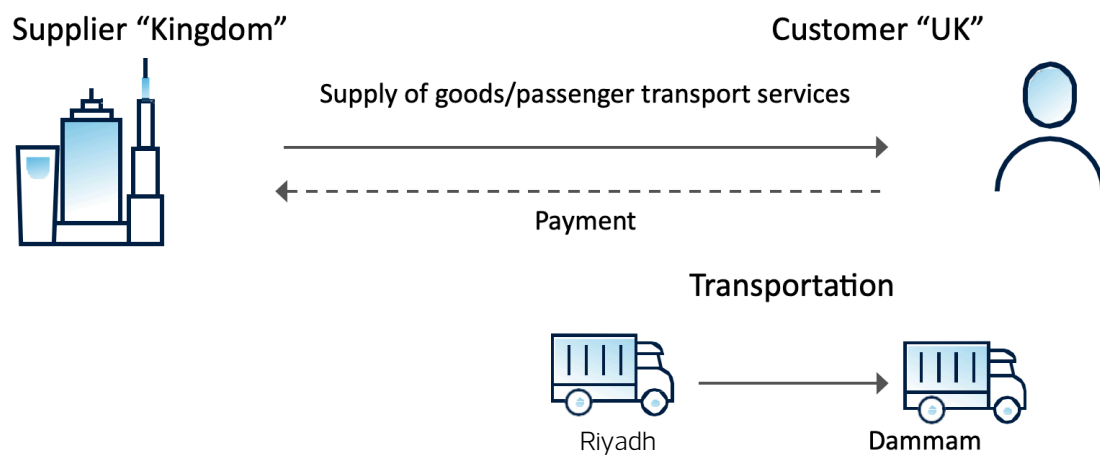


(25) Article 21(a), Unified VAT Agreement



Example (3):

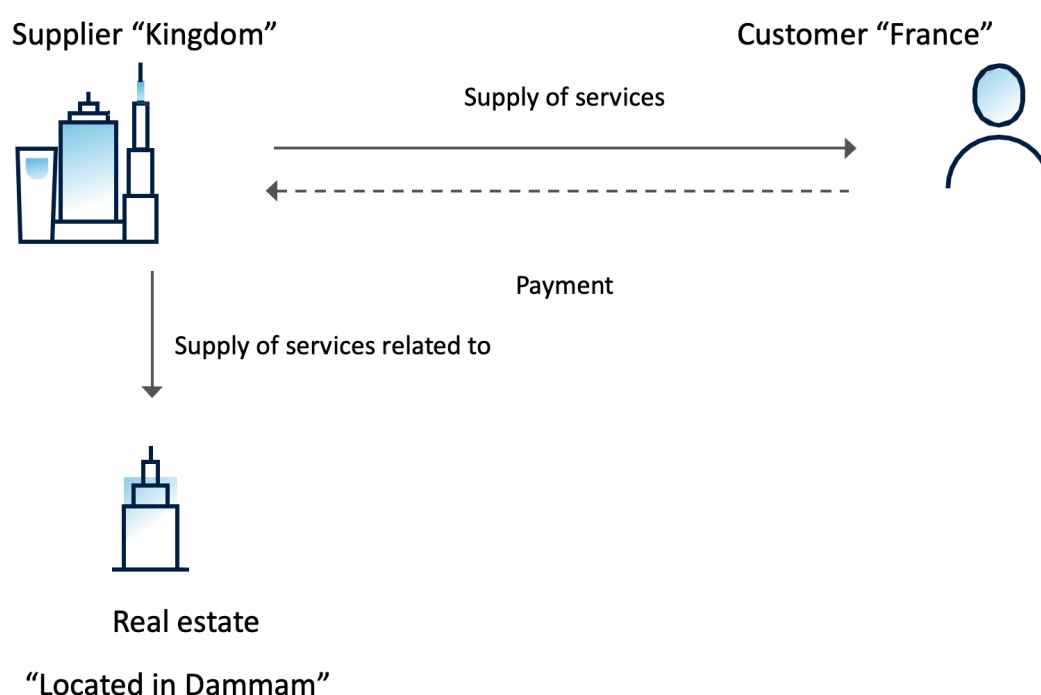
A Saudi logistics company has entered into an agreement with a multinational company based in the United Kingdom to transport its goods from Riyadh to Dammam. This operation is considered a purely internal transfer, and the goods are not transferred outside the Kingdom. This service falls under the Special Cases related to the place of supply, and the place of supply is located in the place where the transfer process began, i.e., Riyadh. Therefore, it is not permissible to apply a zero-rate to that service.





Example (4):

A Saudi architectural design company is providing services related to a real estate project in Dammam to a French customer who is using these services for site development. These services are considered real estate-related, and this particular service falls under Special Cases related to the place of supply; therefore, a zero-rate does not apply to the supply of these services.



Example (5):

A Saudi consulting company based in the Kingdom provides an electronic version of a project report to a customer residing in the United States. This service is not considered an electronic service, as simply providing an electronic version of a project report does not constitute an electronic service. Therefore, the rules relating to Special Cases of the place of supply do not apply in this case, and considering that the service is not a special case of the place of supply, then the supply is eligible for a zero-rate, provided that none of the other exceptions apply.

Example (6):

The Dammam Business Lounge charges an Egyptian customer for using high-speed Internet access while on the place. This service is only accessible to the customer at that location; thus,



the supply location is within the Kingdom. These services fall under Special Cases related to supply location and are not eligible for the zero-rate.

For the purposes of clarification, the customer will also, under this example, directly benefit from the high-speed Internet service in the Kingdom, as does the exception stated in Article 33(2)(c) - which was discussed in Chapter 5.3 of this guideline, to restrict the application of the zero-rate.

Example (7):

The Japanese Chamber of Commerce hosts an annual seminar in Riyadh to promote the commercial activities of Japanese companies worldwide. The seminar aims to provide cultural and educational information about Japan. Delegates/representatives pay an entrance fee of SAR 2,500, which also entitles them to food, beverages, and entertainment.

The Ichiban Limited Company, a trading company established in Egypt, pays the costs for delegates to attend the conference. Given that the entrance fees are related to entry to a cultural and educational event in the Kingdom, the place of supply is determined according to the rules specific to the place of supply, and the zero-rate cannot be applied according to Article 33.

For the purposes of clarification, it should be noted that these services also include the customer's direct access to services in the Kingdom through their representatives, and the exception stated in Article 33(2)(c)-which was discussed in Chapter 5.3 of this Guideline-applies to restrict the application of the zero-rate.

5.2 Customer Has Residence in a GCC Member State

An exception to zero-rating applies in all cases where the Customer has a fixed establishment or other place of residence in the KSA or in another Member State, and that establishment is the one most closely related to the supply in question.

An exception to zero-rating applies in all cases where the Customer has a fixed establishment or other place of residence in the KSA or in another Member State; then the supplier shall consider whether service supplies are more relevant to the non-resident individual or the local branch. Practical indicators of this include the following:

- Whether the supplier receives instructions from head office or local branch staff or deals with them in the supply process, and
- Whether the services are related to an activity carried out by the branch in the Kingdom, or related to activities that are carried out outside the Kingdom.

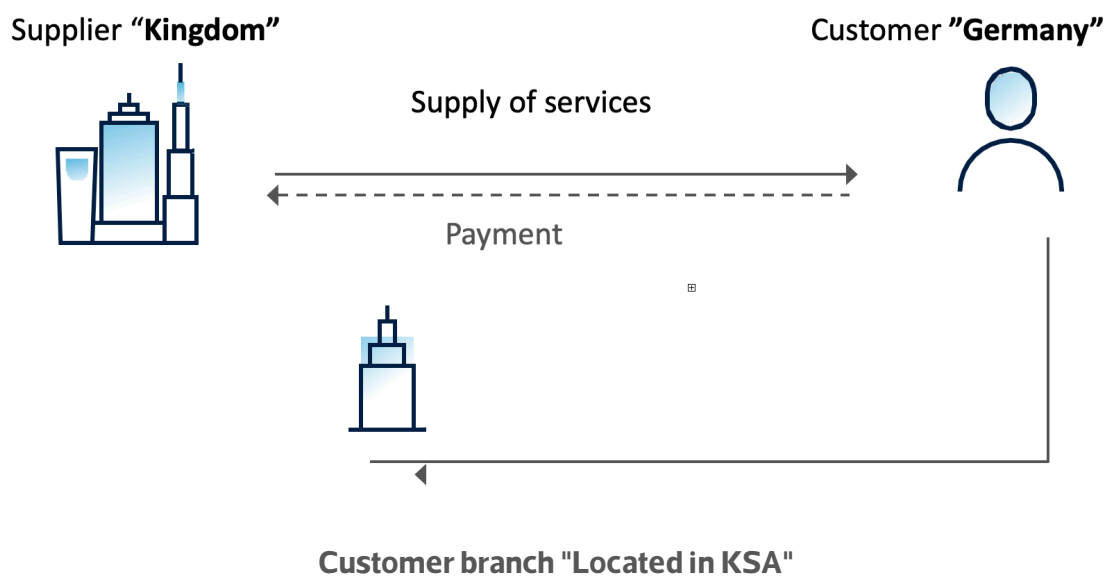


Example (8):

German telecommunications provider has an established branch in the KSA with an office, employees and a Commercial Registration. The German head office requests legal advice from a KSA law firm. This advice is based on instructions from the German headquarters but pertains to the activities carried out in KSA through its branch. This means that the services are more closely linked to the customer's organization in KSA, and the law firm in KSA will not be able to apply the zero-rate when invoicing to the headquarters in Germany because the customer has a place of residence in KSA through their permanent establishment, and this establishment is the one most closely linked to the supply. Therefore, the standard 15% VAT rate is applied.

Example (9):

A Swiss pharmaceutical company has instructed a Saudi consulting firm to provide strategic services regarding its planned expansion into new markets in North Africa. The Swiss company has a representative office in KSA, but the employees of this office are not concerned with this request and the requested consultation is not related to the operations carried out in KSA. In this case, the customer has an establishment in KSA, but it is not the most related to the supply, and therefore, the Saudi consulting company can apply a zero-rate to its supplies.





5.3 Customer or Other Person Related to the Customer Benefits Directly from the Service in a Member State

In certain cases, even though a Customer has no place of residence in the KSA, the Customer or some other Person related to the Customer can receive the direct benefit of the services, while that Person is situated in the KSA. In these cases, an exception to the zero-rating may apply:

"if the Customer or any other Person related to the Customer benefits directly from the supplied services when that Customer or Person is situated in a Member State, and the other Person is not permitted to deduct the input tax on such services in full;" ⁽²⁶⁾

To determine if the exception to zero-rating applies, it is necessary that both of the two conditions below are considered and met:

- There is someone (the Customer or another Person related to the Customer) who directly benefits from the Services whilst situated (either through a usual residence or temporary physical presence) in the KSA or another GCC State (direct benefit requirement - see 5.3.1 below); and
- If this direct beneficiary is the Person related to the Customer, the direct beneficiary would not be eligible to fully deduct any KSA VAT which would have been charged to him on the supply of those Services (deductibility requirement - see 5.3.3 below). The deductibility requirement is not considered where a Customer or its employee directly benefits from services whilst situated in a Member State - in these cases the zero-rate does not apply.

5.3.1 Direct Benefit Requirement/Test: Does the Customer or the Person Related to the Customer Receive a Direct Benefit?

Customer's direct benefit

If the Customer is a non-resident with no fixed establishment in a Member State, that Person - including employees of that Person - can receive the performance of services, and the direct benefit from those services whilst they are visiting the KSA or another Member State. In this way, the employee or individual Person's physical presence means they are situated in a Member State. If this is the case, zero-rating cannot apply as the Customer does not benefit from the

(26) Article 2(33)(c), Implementing Regulations. This provision gives effect to the requirement of GCC law (Article 1(34)(d), Supplies to Outside the GCC Territory, Unified VAT Agreement) that the Customer must benefit from the services outside of GCC Territory for zero-rating to apply.



services outside of GCC Territory. The deductibility requirement discussed at 5.3.2 is not relevant for these cases.

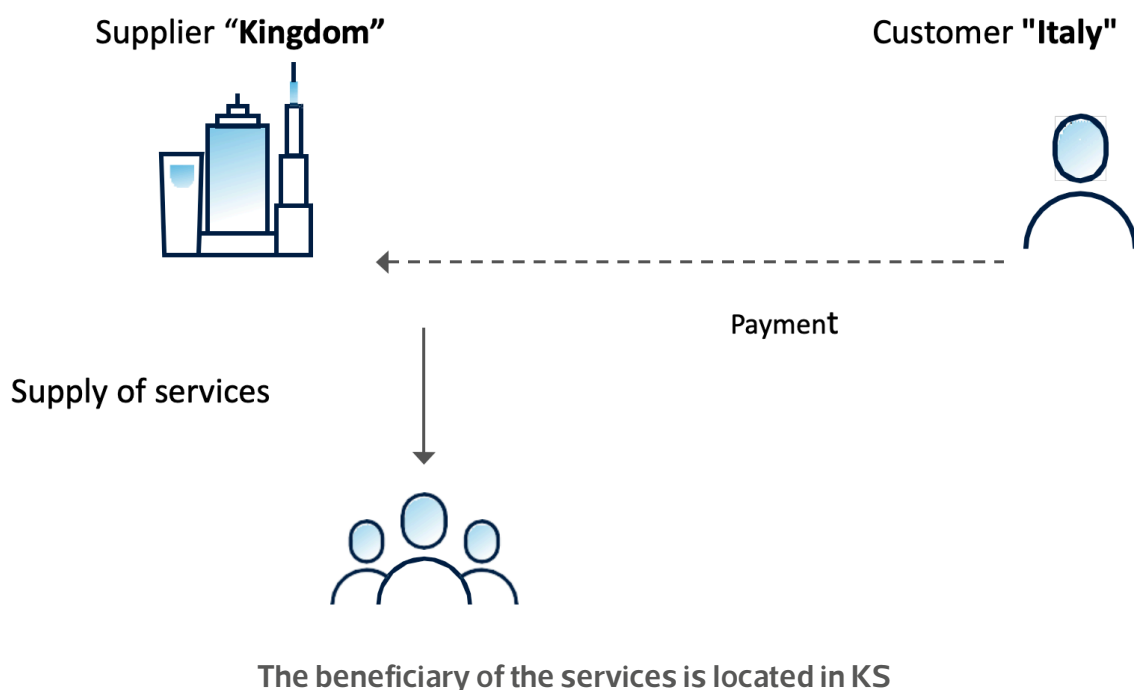
Here are some practical examples of a customer - or their employees - who obtains a direct benefit.

Part 2 of Chapter 5.3.1 highlights the cases in which other people may obtain a direct benefit.

Example (10):

Employees of Terra SpA, an Italian design consulting agency without a Saudi establishment, visit Riyadh for two weeks to prepare for and make a proposal bid to a Saudi client. It engages Al Murdi, a Saudi supplier, to provide administrative and technical support with the bid.

Al Murdi provides a team who interacts directly with the visiting employees of Terra SpA. Al Murdi provides its services to a Non-Resident Customer, but the Non-Resident Customer directly benefits from the services whilst its employees are temporarily situated in the KSA. Al Murdi cannot apply the zero-rate to the services.



**Example (11):**

Ali is a Jordanian lawyer. Ali attends a consultation with a lawyer in Jeddah concerning a specific matter of Islamic Financing law. The Saudi lawyer delivers a documented meeting note of the consultation to Ali two weeks later, when Ali has returned to Jordan. In this case, the advice provided during the in-person consultation is a significant part of the services. Ali receives the direct benefit of the services whilst situated in the KSA. Therefore, the Saudi lawyer cannot apply the zero-rate to the services.

Example (12):

A Saudi law firm meets with a business company coming from the United Kingdom to Riyadh for business purposes. During the discussion, the visiting business company provides basic information on a legal matter related to a future job opportunity in Saudi Arabia. During the meeting, the Saudi law firm provided some information about its qualifications regarding the provision of future services, within the framework of a marketing activity aimed at providing future job opportunities. The Saudi law firm does not provide any consultation or services during the meeting or while the customer's employees are in the Kingdom.

Following the meeting and after the customer's representatives return to the United Kingdom, the Saudi law firm agrees to provide formal business advice in the United Kingdom. In this instance, during the customer representative's visit to the KSA, no direct benefit is obtained from the Saudi law firm's services by that representative, or any other person in the KSA, and therefore the Saudi law firm should apply a zero-rate to the services.

Another person related to the customer obtains a direct benefit

In some cases, a non-resident customer can instruct a Supplier to supply a service, and enter into the contract for the provision of the services, but the commercial arrangements result in the service being provided for the benefit of another known Person related to the customer.

A Person related to the customer will be considered to directly benefit from the services if:

- The Supplier and the Customer intend that the main deliverables, output, or performance of the services will be supplied directly to another Person related to the customer situated in KSA or another GCC Member State (either through that Person's place of residence, or a temporary presence to receive the services) as a term of the supply; or
- The nature of the services is such that a different Person related to the customer other than the Customer must receive the predominant benefit directly from the Supplier.



- The Agreement defined related parties as Two or more persons where one person has the authority of supervision and direction over the other person, whereby he holds an administrative authority

enabling him to influence the work of the other person from financial, economic and organizational point of view; including persons subject to a third person's authority enabling him to influence their work from a financial or economic or organizational point of view.

- Article 37 of the Regulations also specifies the cases in which persons are deemed to be related. including the following:

A natural person is considered related to another natural person if that other person is their spouse, in-law, or relative up to the fourth degree. A related person is also considered related when they are a partner, manager, or planner in a legal entity. Furthermore, a natural person is considered related when they control or own, either alone or with a related person or persons, more than fifty percent of the capital, voting rights, or value of the legal entity.

as for legal entities under joint control are considered related if one or more persons directly or indirectly hold more than fifty percent (50%) of the capital or control or own more than fifty percent (50%) of the voting rights or value in any of the cases involving natural persons and two or more legal entities.

Example (13):

A global construction company headquartered in Spain, with a subsidiary in the KSA, has contracts with a law firm in the KSA to provide legal services related to the Kingdom's labor law applicable to the subsidiary's activities. In this case, instructions are issued to the law firm, and the contract is signed with the head office in Spain, but the firm provides its legal services directly to the subsidiary's team in the KSA. Therefore, the services are utilized directly by someone related to the customer in the KSA. The law firm should confirm whether the tax deduction request can be realized before applying the zero-rate, in accordance with the requirements outlined in Chapter 5.3.2 below.

Example (14):

A Saudi accounting firm conducted an audit of the financial statements of a local Saudi company affiliated with a global company, based on the instructions and request of a subsidiary of that company in the United States. While the subsidiary in the United States directs and pays the fees



to the Saudi subsidiary, the Saudi subsidiary is legally obligated to rely on auditing by the Saudi accounting firm, which means that the subsidiary in Saudi Arabia receives most of the benefit from the services. The accounting firm must confirm whether the tax deduction requirement can be met before applying a zero percent rate, in accordance with the requirements outlined in Chapter 5.3.2 below.

Example (15):

A Saudi company, not registered for VAT purposes, is making improper arrangements to purchase digital services from a Saudi supplier through a Lebanese subsidiary, with the intention of providing the services and applying VAT at a zero-rate. The Lebanese company acts solely as an intermediary, simply arranging for the transfer of all digital content to the Saudi company. The Lebanese company does not benefit from the services themselves, nor does it make any subsequent actual supply. In this case, the Saudi company obtains the direct benefit from the services, and therefore, the Saudi supplier, if aware of the improper arrangements, should not apply a zero-rate to the supply.

Conversely, there will be many instances where a person other than the customer obtains some benefit, secondary interest, or final performance of services resulting from the supply of services to the customer, and this will not affect the tax treatment unless the other person directly benefits from the supplier's supply of the services.

Onward provision of services by the Non-GCC Resident Customer

A direct benefit does not arise if a Non-Resident Customer receives services from the supplier in a proper manner and subsequently supplies the same services to another person in the KSA.

This may occur in subsequent supply transactions within groups of companies or between unrelated parties. The key point is that there are two distinct supply transactions, one made to the non-resident and the other made by a non-resident. Consequently, the non-resident customer benefits from the services and uses this benefit to make a new supply transaction.

The supplier who makes the initial supply does not control - and may not even be aware of - the subsequent supply of services by the customer, and it should not affect the supply that he makes.

Example (16):



Global Consulting UK has a global contract with Asia Trading Company Limited, which has a head office in Singapore and local companies established in many countries throughout Asia and the Middle East, including Asia Trading KSA.

Global Consulting UK enters into a contract to carry out an impact assessment for Asia Trading Co. Limited across multiple countries. It arranges for its subsidiary, Global Consulting KSA, to carry out specific information gathering tasks at the premises of Asia Trading KSA. The local consulting team carries out these tasks but does not provide services directly to Asia Trading KSA. The analysis of the information, conclusions, and recommendations is carried out at a project-wide level by Global Consulting's head office and will be distributed to all subsidiaries.

Global Consulting KSA charges Global Consulting UK for the time spent in carrying out the tasks as agreed under the contract. This charge can be zero-rated, as the direct benefit of the services is provided to Global Consulting UK. Asia Trading KSA will later receive some indirect benefit from the services, but it does not directly benefit from Global Consulting KSA's services.

Secondary or ancillary advantage of services supplied to a Non-GCC Resident Customer

A direct benefit does not arise if the services are provided to a non-Resident Customer and another Person receives a secondary or ancillary advantage from the provision of those services.

Example (17):

A Saudi advertising agency is designing an advertising campaign for a consumer product that will be launched in Saudi print and television media. The advertising agency enters into a direct contract with the product's manufacturer, which is not based in the Kingdom, and the campaign does not directly mention local retailers who sell the products. In this case, local manufacturers may receive additional benefits from the services provided, but they do not directly benefit from those services.

Business relations which do not involve provision of services

If the Supplier has a regular business interaction with another affiliated Person in the KSA, this does not in itself indicate that the other affiliated Person receives any direct benefit. Whilst the facts will be important in each case, ZATCA considers that the main output or deliverables are most important to determine whether direct benefit exists.



Example (18):

Saudi Insight, a market research company in KSA, provides research services to a customer resident in the UK (UK Co). The services contract is with UK Co and its deliverables are provided exclusively to UK Co. Saudi Insight often liaises with UK Co.'s KSA affiliate entity (in respect of administrative matters such as planning, deliverables, administration of contract), but no output is not intended for, and never provided to, the KSA affiliate. In this case, the KSA affiliate does not directly benefit from the services.

If the supplier is aware that another Person directly benefits from the services whilst situated in the KSA, the supplier must consider the requirement for deducting the tax.

5.3.2 Tax Deduction Eligibility

If services are supplied to a Non- GCC Resident Customer, and another Person who is not the Customer directly benefits from the services in the KSA, the application of the zero-rate depends on that other Person's eligibility to deduct VAT.

If the other Person would be eligible to full deduction, the Supplier can apply the zero-rate to the supply of services. For the purpose of applying the deduction eligibility requirement, it is necessary that the other Person who directly benefits from the services would be entitled to deduct the VAT in full, on the date the services were provided.

Therefore, all of the following should be available at the time these services are provided:

- This other Person must have been registered for VAT,
- The Services were used by the other Person for the purpose of an Economic Activity in the context of making Taxable Supplies.⁽²⁷⁾

If the other Person is only entitled to partial VAT deduction in relation to services supplied to him (Not 100% full deduction), then the requirement for the purpose of applying zero tax rate has not been met. Therefore, the zero-rate does not apply in these cases.

For the purposes of documenting the entitlement of applying zero-rate tax on supplying services in these cases, ZATCA requires that the supplier must obtain the following information and evidence from the other person:

(27) Article 46, Unified VAT Agreement. Please see the Input Tax Deduction guideline for further detail.



- Full name of the other Person
- Tax Identification Number
- Confirmation of full right to Input Tax Deduction in respect of that Supply, in case the other person directly benefited from the services.

If the Supplier makes multiple supplies of similar services to a Customer during a calendar year, for which a single other Person directly benefits from those services, ZATCA accepts the other Person can provide a single evidence of the right to full Input Tax Deduction in respect to supplies during that calendar year.

ZATCA does not expect the Supplier to perform any additional checks to verify the other Person's ability to deduct VAT. However, if the Supplier has reason to suspect the services would be used for exempt or non-Taxable purposes, it may request additional evidence to support the application of the zero-rate. If there are reasonable grounds for not verifying the eligibility of the taxable person, the tax will be applied at the basic rate, with the customer having the right to claim a tax credit/refund of the input tax.

5.4 Services Are Performed in a Tangible Manner in Relation to Tangible Goods Located Within a Member State During the supply

If the services provided are performed tangibly in relation to tangible goods located in the KSA, this is another exception where the zero-rate cannot be applied.

ZATCA considers that this exception applies to any service that affects physically and in a tangible manner tangible goods in a Member State, or a specific service that specifies tangible goods in a Member State as the main subject of the service.

Example (19):

A logistics provider charges a Korean supplier of mobile phones and accessories for the storage and distribution of a stock of goods held in the KSA. The services relate to tangible goods located in the KSA, and the supply may not be zero-rated. The logistics provider charges KSA VAT at 15% on the storage and distribution services.

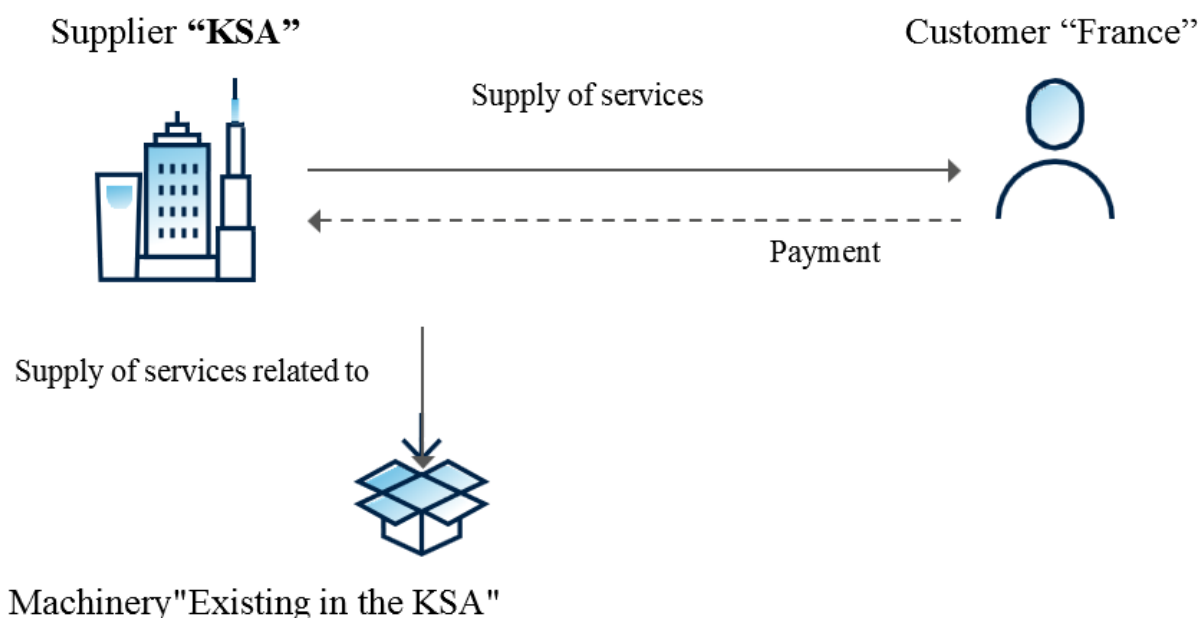


Example (20):

A KSA resident marketing company charges a Japanese manufacturer of cars for marketing services provided to promote a special model of vehicle, which is sold in several countries, including the KSA. While there will be a stock of these vehicles in the KSA at the time when they are sold, the marketing services are provided prior to the shipment of the vehicles and are not linked to any specific, well-known products in the KSA. The Japanese company that sells cars to the KSA is not a GCC resident. Although these marketing services are related to the trade name of the Japanese company whose vehicles are available in the KSA, the marketing pertains to car models that are not available in the KSA at the time of delivery. Therefore, it is possible to apply a zero-rate to these services.

Example (21):

A Saudi insurer provides a contract of insurance to a French construction company to insure a piece of imported machinery during a two-year period whilst it is used on a construction project in Saudi. The insurance policy has a known and identified good located in the KSA as the central subject matter of the insurance service. The insurer charges standard KSA VAT at 15% on the policy.





5.5 Eligibility for the Application of the Zero Rate According to Other Articles of the Implementing Regulations of VAT

The exceptions detailed in this chapter of the Guideline only relate to the application of the zero-rate to services provided to a Non-GCC Resident (in accordance with Article 33 of the Implementing Regulations).

Zero-rating could possibly be applied under different zero-rating categories outlined in other articles of the Implementing Regulations, even if the exceptions in this Guideline apply.

Example (22):

A KSA established company provides international transportation services for goods from the KSA to a Korean company who is a non-GCC Resident Customer. These services relate to goods located in the KSA (a Special Case), and due to this exception cannot be zero-rated as a service provided to a non-GCC Resident (under Article 33 of the Implementing Regulations). However, the service can still be zero-rated as a supply of international transport (which is based on Article 34 of the Implementing Regulations).

6. Recharging Costs Between Group Companies

A company headquartered in the KSA may purchase services from local suppliers, provided that such services benefit both the company in the KSA and its subsidiaries abroad, or other companies within its economic group. In such cases, the arrangements between the companies will allow the company in the KSA to charge the costs to the group companies abroad on a pro rata basis.

Cost recharging is not an economic activity in itself, but it can be part of a broader economic activity involving taxable supplies. In some cases, companies may provide services to other companies within the economic group that are then rewarded by increasing the costs incurred in supplying those services.

Assuming that the expenses were properly incurred by the company in the KSA in its own name and as part of an economic activity, the recharging of those expenses is considered a recovery/ reimbursement of expenses, and is treated as a supply that falls within the VAT scope. Based on the specific circumstances of the case, VAT may be applied to it as a subsequent supply of the same goods or services, or, if applicable, as additional consideration for the primary supply made by the company. If the conditions stipulated in Article 33 of the Implementing Regulations are



met, the recharging of costs to the group's overseas companies may be eligible for a zero-rate.

Example (23):

Zenith Consulting, a Saudi consulting firm, makes a partnership with Saudi market research company "We Search" to conduct research aimed at understanding consumer behavior and the consumer base regarding a specific product in both Saudi Arabia and Belgium. The report's findings will be shared by Zenith.

For consulting with its subsidiary in Belgium, the two parties agreed to share market research costs equally. We Search will invoice Zenith Consulting and apply VAT in the KSA at the standard rate. Furthermore, the subsequent supply of market research results by Zenith Consulting to its subsidiary in Belgium will be a separate supply. In this case, recharging costs should be eligible for the zero-rate since the supply is made to a non-GCC resident customer, provided that the other requirements specified in Article 33 of the Implementing Regulations are met.

Example (24):

Element Consulting, a consulting company based in the KSA, has its headquarters in Riyadh and a subsidiary in the United Kingdom. Employees of the UK-based company visit the Kingdom on business trips. Element Consulting arranges accommodation for the subsidiary's employees and pays the cost directly to the hotel. Element Consulting is the contractual recipient of the services and subsequently reimburses the cost to the UK subsidiary. In this case, recharging costs is treated as a separate supply, and Element Consulting is obligated to charge VAT at the standard rate when invoicing to the UK subsidiary, as the conditions for applying a zero-rate have not been met - i.e., the supply is a Special Case of the place of supply, since the UK subsidiary directly benefits from the services while its employees are in the Kingdom.

Example (25):

A Saudi branch of a UK-based company provides support to the head office on a cost-plus-profit basis. The branch incurred advertising costs that were recharged to the head office according to their agreement. Since this transaction takes place within the same legal entity - i.e., the branch and the head office - then it is not considered a supply for tax purposes, and consequently, no tax effects arise in this regard, except that the branch's right to deduct the tax on inputs charged by its suppliers will depend on the use of supplies.



Please also note that if the UK headquarters engages in taxable activities or supplies within the Kingdom, these should be declared through registration of the entity for VAT purposes in the Kingdom. Given that the branch and its head office are considered one person for the purposes of VAT, under the tax registration of the branch, all branch activities, transactions and supplies made by the head office with beneficiaries in the Kingdom should be declared.

7. Amendments to Article 33 of the Implementing Regulations of VAT

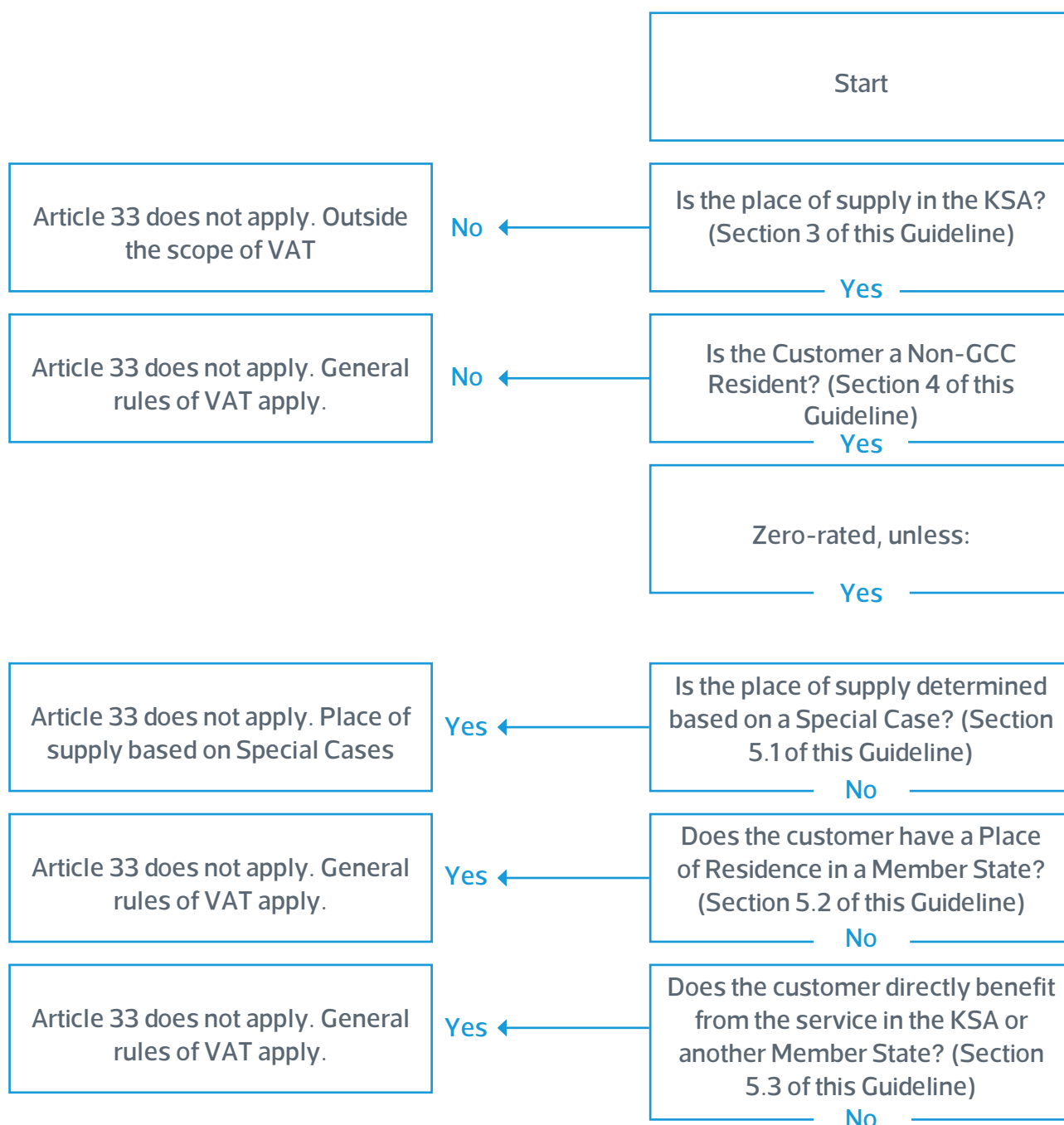
Article 33 of the Implementing Regulations was amended by ZATCA's Board of Directors' Decision No. (9-3-19) dated 30th Shawwal 1440H/30th July 2019, and shall be effective from 18th July 2019.

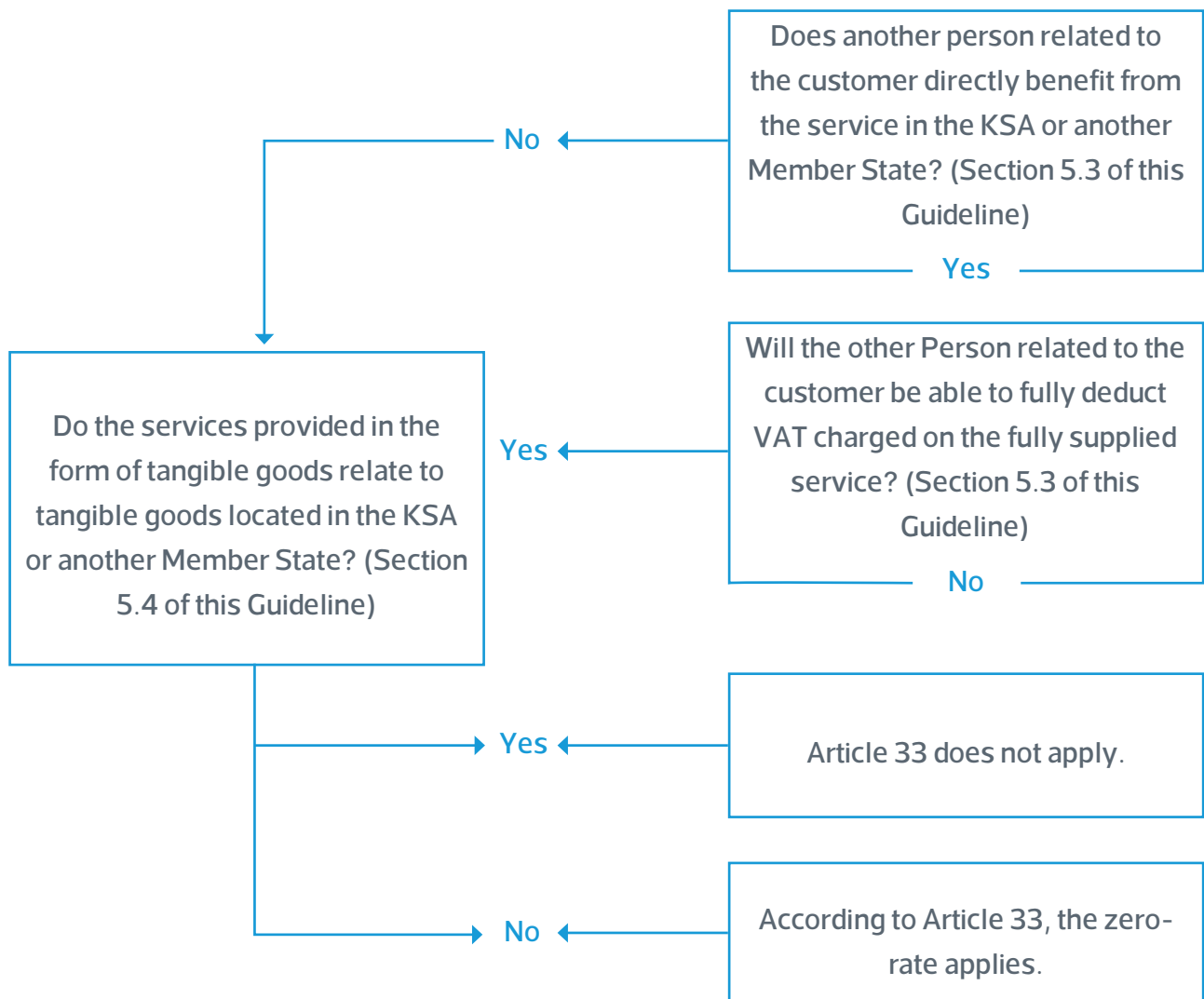
Article 33 of the Implementing Regulations was amended by ZATCA's Board of Directors' Decision No. (5-9-22) dated 5th Jumada Al-Awwal 1444H/29th November 2022. ZATCA considers the effect of the new wording of Article 33 to be similar to the effect of the article in its previous wording. However, the application of the zero-rate must be accurately applied based on the specific facts and circumstances in each case, and the prior wording of Article 33 will be applied according to the date of supply.

Article 33 of the implementing Regulations of the Value Added Tax law was also amended by ZATCA's Board of Directors' Resolution No. (24-06-01) dated November 19, 2024, which included some clarifications of the tax provisions related to services supplied to non-residents of the GCC countries, in which it was emphasized that the customer or any person related to the customer should not benefit from the supplied services while any of them are in a member state, in addition to the condition that the services should not be performed in a tangible way on tangible goods located in any member state during the supply process.



Appendix 8







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