VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

# On the Transfer of an Economic Activity

under VAT Provisions

Version 3 | May 2026

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

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

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

## Amendments

| # | Edition No. | Amendment Date | Section/ Item | Amendment Type | Amendment Description | Remarks |
|---|---|---|---|---|---|---|
| 1 | 3 | May 2026 | 5<br>10<br>11 | Addition and 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 Implementing VATin the Kingdom of Saudi Arabia

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

## 1.2 Zakat, Tax and Customs Authority (ZATCA)

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

## 1.3 What is VAT?

It is an indirect tax levied on the import and supply of goods and services at each stage of production and distribution, with certain exceptions. VAT is applied in more than 160 countries worldwide.

It is a consumption tax that is paid and collected at each stage of the supply chain, starting from the manufacturer's purchase of raw materials and ending with the retailer's sale of the final product to the consumer. Unlike other taxes, persons subject to VAT shall:

- Collect VAT from their customers on each taxable sale transaction in accordance with the specified tax rate.
- Pay VAT to suppliers, if any, from whom they received goods or services, equivalent to the unified tax rate for each taxable purchase transaction.

When VAT taxable persons sell a good or provide a service, they must levy a 15% tax, assuming that the standard rate applies to such supplies, to be added to the final sale price. Taxable persons shall account for the 15% collected from taxable sales transactions separately from their revenues in order for it to be remitted subsequently to the Authority. The VAT collected by taxable persons on their sales is referred to as "Output Tax".

Purchases made by taxable persons are treated similarly: 15% VAT is added to purchases of goods and services made by persons subject to VAT, assuming that the standard rate applies to such supplies. The VAT paid by them to their suppliers is referred to as "Input Tax".

## 1.4 This Guideline

This Guideline is intended for all natural and legal persons carrying on an economic activity and are subject to VAT. This important Guideline provide further clarification regarding the obligations and tax implications related to the transfer of businesses.

For guidance on any specific transactions, a request may be submitted to obtain an interpretative decision; or you can the official VATwebsite at zatca.gov.sa, which offers a wide range of tools and information specifically developed to assist persons subject to VAT, including visual guidance materials, all relevant publications, and frequently asked questions (FAQs).

## 2. Definitions of Key Terms

**Taxable Person:** A person who runs an economic activity independently for generating income, and who is registered for VAT purposes in the Kingdom or is deemed required register for VAT[((1))] therein in accordance with the VAT Law and its Implementing Regulations.

**Economic Activity:** An activity carried out continuously and regularly, including commercial, industrial, agricultural, professional or service activities, or any use of tangible or intangible property, and any other similar activity[((2))].

The term Transfer of an Economic Activity is not defined for the purposes of VAT; however, it will be used in this Guideline to refer to transactions in which a taxable economic activity is transferred from a taxable person to a recipient whether wholly or partly such that it is operable as an economic activity in its own right, and is not treated as a taxable supply where the following conditions are met:

1. The goods and services related to the transferred activity are operable as an independent economic activity and include all tangible and intangible assets necessary for that purpose.
2. The recipient is a taxable person registered with the Authority, or becomes so as a result of the transfer, and undertakes to use the assets, goods, and services in the same economic activity of the supplier.
3. A written agreement exists between the supplier and the recipient stating their intention to treat the transfer as a transfer of an economic activity for the purposes of the Implementing Regulations.
4. The supplier and the recipient notify the Authority of the transfer no later than the end of the month following the date of transfer, using the approved form for that purpose.

Further information regarding the transfer of an economic activity can be found in Section 5.2.1 of this Guideline.

The Implementing Regulations set out conditions for considering such transfer to be outside the scope of VAT[((3))].

(1) Article 2 of the Implementing Regulations
(2) Article 1 of the Unified Agreement for VAT
(3) Article 17 of the Implementing Regulations

**Taxable Supply:** Supplies on which tax is imposed in accordance with the provisions of the Agreement, whether at the Standard Rate or at the Zero Rate, and for which the related Input Tax is deductible in accordance with the provisions of the Agreement[(4)].

Tax is chargeable on all supplies of goods or services, or both together, made by any taxable person in the Kingdom in the course of carrying on an economic activity, or on those received by any taxable person in the Kingdom in the course of carrying on an economic activity in cases where the Reverse Charge Mechanism applies, and on the import of Goods into the kingdom. [(5)].

The term "**Transferor**" is not defined for VAT purposes. However, it will be used in this Guideline to refer to the person who transfers the entity through the sale of the entity's assets or shares.

The term "**Transferee**" is not defined for VAT purposes. However, it will be used in this Guideline to refer to the person to whom the entity is transferred through the sale of the entity's assets or shares.

The term "**Transfer Date**" is not defined for VAT purposes. However, it will be used in this Guideline to refer to the date on which the entity was transferred.

**Mandatory Registration Threshold:** The minimum value of actual supplies at which a taxable person becomes obligated to register for tax purposes [(6)]

Further information on Mandatory Registration is provided in Section 3.2 of this Guideline.

The term "**Deregistration**" has not been defined for VAT purposes. However, the Unified Agreement for VAT outlines its cases as follows:

1. A taxable person registered for tax purposes must apply for deregistration under any of the following circumstances:
    a. If he ceases to carry on an economic activity.
    b. If he ceases to make taxable supplies.
    c. If the value of taxable supplies has fallen below the Voluntary Registration Threshold in accordance with Article 51 of this Agreement.

(4) The Unified Agreement for VAT
(5) Article 14 of the Implementing Regulations
(6) Article 1 of the Unified Agreement for VAT

2. A taxable person may apply for deregistration where the total value of their annual turnover has fallen below the Mandatory Registration Threshold while exceeding the Voluntary Registration Threshold [(7)].

**Tax Group:** Two or more legal persons residing in the same Member State[(8)].

The concept of "**A Transfer Qualifying as an Economic Activity Transfer**" is not defined for VAT purposes. However, it will be used in this Guideline to refer to the transfer of an economic activity that fulfils the conditions provided in the Implementing Regulations of the Law and is therefore outside the VAT scope.

# 3. Economic (Business) Activity and Registration for VAT Purposes

## 3.1 What is Meant by a Person Who Carries on an Economic Activity?

An economic (business) activity may be conducted by both natural persons and legal persons. Legal persons, such as companies, are considered to be running an economic activity if they carry on a regular activity involving the making of supplies. Natural persons may perform certain activities either as part of an economic activity or as part of their private activities; therefore, special rules apply to determine whether a natural person is liable to VAT.

Natural persons and legal persons who carry on an Economic Activity must register for the purposes of VAT if so required, and such persons must collect the VAT applicable to their activities, and pay the tax collected to the Authority.

### 3.1.1 Holding Companies

A Holding Company is a corporate entity established to control other companies referred to as subsidiaries typically by owning shares or equity interests in those other companies. Companies in the Kingdom are not regarded as Holding Companies unless they are established as holding companies in accordance with the Companies Law and other relevant regulations in KSA. The activities of a holding company may vary from one company to another.

(7) Article 54 of the Unified Agreement for VAT
(8) Article 4 of the Unified Agreement for VAT

A pure holding company created solely for holding ownership rights, where its only source of income is dividends, shall not be regarded as carrying on an economic activity for VAT purposes. However, if the holding company has other sources of income or expenses, it is likely to be regarded as carrying on an economic activity.

| A "pure" holding company may: | An "active" holding company may: |
|---|---|
| Hold shares in a single subsidiary within a group or in multiple subsidiaries. | Incur operational costs and re-charge these costs to other entities within group. |
| Receive dividends from equity stakes or shares it holds. | Provide financing to branches or other subsidiaries. |
| Distribute dividends to shareholders. | Invest by means of purchasing or selling shares and other securities. |
| Incur fees related to company registration, auditing, and other non-operational expenses. | Receive consideration for a portion of employee and office costs or maintain its own administrative personnel. |
| ---- | Provide services to other subsidiary companies. |
| ---- | Own real estate and movable assets necessary for carrying out its activities. |
| ---- | Hire out ownership rights and other rights in rem to its subsidiary companies or others |
| These activities are not considered sufficient to establish that the "pure" holding company is carrying on an economic activity. | These activities indicate that the "active" holding company carries on an economic activity. |

### Example (1)

Holding Company (A), a company based in the Kingdom, holds 100% ownership of a group of seven subsidiaries. This holding company is registered at the same address as the largest operating subsidiary and has no staff or office of its own. It holds annual board meetings to cover the activities of the group and approve dividends, bearing the costs of this activity. However, it does not provide any administrative services to the subsidiaries. Accordingly, Holding Company (A) is not considered to be carrying on an economic activity and cannot register for VAT purposes or join a tax group with other companies in the group.

### Example (2)

Holding Company (B), a company resident in the Kingdom, holds 100% ownership of a group of seven subsidiaries. This holding company incurs central financial costs of the group and re-charges them to the subsidiaries. In this case, Holding Company (B) is considered to be conducting an economic activity for VAT purposes, as it generates its income from fees charged for services provided to its subsidiaries.

Accordingly, it must register for VAT if its annual taxable supplies exceed the Mandatory Registration Threshold. It may also apply for VAT registration if its annual taxable supplies exceed the Voluntary Registration Threshold, or it may join a tax group with one or more of its subsidiary companies.

## 3.1 Mandatory Registration

Registration is mandatory for all persons whose annual turnover exceeds a certain threshold. If the total value of a person's Taxable Supplies during any 12 months exceeds SAR 375,000, (the "mandatory VAT registration threshold"), that person must register for VAT ((9)) on the supplies made, subject to the transitional provisions provided for in the Implementing Regulations.

**Taxable Supplies do not include:**

- Exempt supplies – such as exempt financial services or residential rental which qualifies for VAT exemption;
- Supplies taking place outside the scope of VAT in any GCC state; or
- Revenues on sales of capital assets – a capital asset is defined as an asset allocated for long-term business use ((10)).

(9) Article 3 of the Implementing Regulations.
(10) Article 1 of the Unified Agreement for VAT.

**In specific cases, Mandatory Registration provisions apply:**

- Non-Residents in the Kingdom of Saudi Arabia who are liable to pay VAT on supplies they make or receive in the Kingdom must register for VAT purposes regardless of the value of the supplies in respect of which they are required to charge and remit VAT((11)).

Further information on Mandatory Registration for VAT purposes can be found on the Authority's website zatca.gov.sa

## 3.2 Voluntary Registration

A resident person in the Kingdom whose taxable supplies or taxable expenses exceed SAR 187,500, the Voluntary Registration threshold, within 12 months may voluntarily register for VAT purposes((12)).

Voluntary VAT registration is recommended where a person wishes to claim a refund of VAT paid on expenses incurred prior to issuing invoices or making a subsequent supply.

For more information on Voluntary Registration for VAT purposes, please visit the Authority's website zatca.gov.sa

## 4. Transfer of Business: Asset vs Share Sale

A business may be transferred through the direct transfer of the tangible and intangible assets of the entity to the transferee (asset deal), or through the transfer of the shares of the company that manages the business to the transferee (share deal).

Specifics of a typical asset deal are explained in Section 4.1 of this Guideline, while aspects of a share deal are shown in Section 4.2.

(11) Article 5(1) of the Implementing Regulations
(12) Article 7 of the Implementing Regulations

### 4.1 Asset Deal

In the case of an asset deal, the transferee acquires the assets of the business from the transferor. This may include tangible assets (such as property and equipment) and intangible assets (such as intellectual property and goodwill). For further details about the different types of assets, please refer to Section 5.1. In general, all assets to be transferred are identified separately in the sale agreement between the transferor and the transferee.

In principle, debt liabilities relating to the transfer of the business ownership remain with the transferor. However, the parties may agree to transfer such obligations to the transferee, subject to the applicable laws and regulations in the Kingdom.

A distinction should be made between the transfer of individual assets (and/or individual debt liabilities, where applicable) and the transfer of the assets of a business that may be operated as an independent economic activity. This concept is discussed in Section 5 of this Guideline.




For an asset sale to be considered a transfer of an economic activity, the aggregated assets transferred must be capable of being operated as an independent economic activity by the Transferee. The mere transfer of inventory, for example, does not qualify as a transfer of an economic activity.

### Example (3)

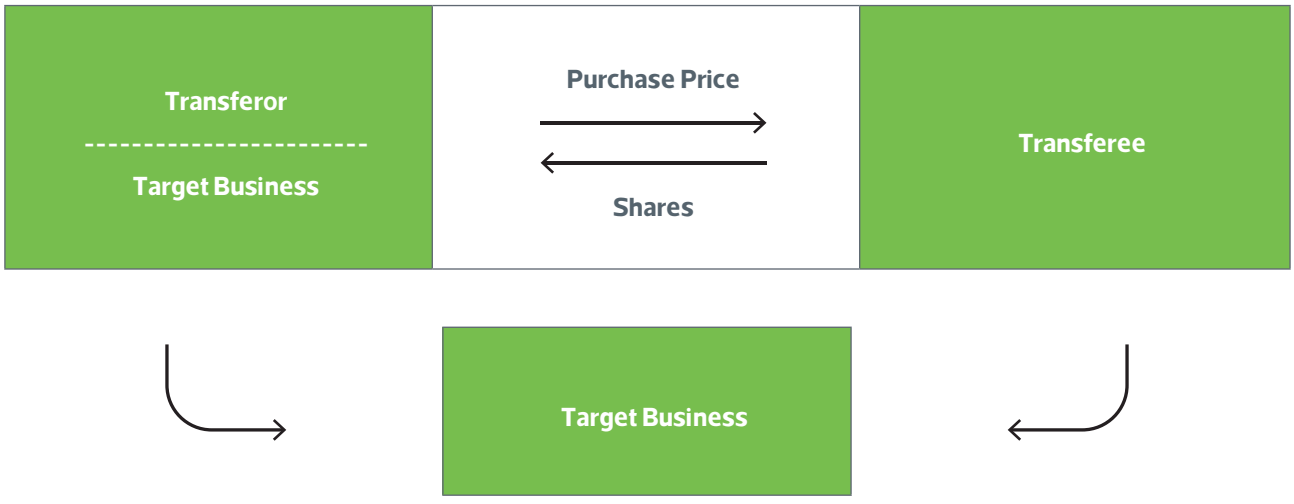
Abdullah owns a shoe store in Al Mamlaka Mall in Riyadh. Abdullah sold his entire inventory of shoes to another shoe store to make room for the new winter season collection. The sale of inventory does not qualify as a transfer of an economic activity. More examples illustrating this distinction are provided in Section 6.3 of this Guideline. The VAT aspects of the transfer of businesses via asset deals are detailed in Section 6 of this Guideline.

## 4.2 Share Deal

In the case of a share deal, the transferor is the owner of the share capital in another company (a separate legal entity). The transferor owns and directly manages the economic activity of the separate legal entity. The transferee acquires ownership of some or all of the shares of this separate legal entity from the transferor, which means that the transferee becomes an indirect owner of that entity.

The separate legal entity continues to own the business assets, operating and carrying on the economic activity as usual. The share deal simply leads to transferring/changing the ownership of this separate legal entity.

A share deal can be described as follows:




The VAT aspects of business transfer via share deal are detailed in Section 7 of this Guideline.

# 5. Transfer of Assets

## 5.1 General Concepts

Types of assets include the following:

**Tangible Assets:** Assets that have a physical form or substance. Tangible Assets include fixed assets, such as machinery, equipment, devices, buildings, and land, as well as current tangible assets (such as inventory).

**Intangible Assets:** Defined under the accounting practices adopted in the Kingdom as "identifiable non-monetary asset without physical substance from which future economic benefits are expected to flow[(13)] ". Examples of Intangible Assets include patented technology, computer software, databases, trade secrets, trademarks, trade dress, newspaper mastheads, internet domains, audiovisual materials, mortgage servicing rights, licenses, proprietary rights agreements, franchise agreements, and marketing rights.

When businesses are transferred through asset deals, each asset must be considered separately to determine the tax treatment. In principle, the supply of tangible and intangible assets involves a supply of goods and services from the supplier to the customer.

In this context, any supply made for consideration is presumed to be a supply of goods or services.

For VAT purposes, the term "Supply" is a broad one that refers to "any form of supply of goods or services for consideration[(14)]". Goods include any tangible assets, while services cover any supply that is not a supply of goods (which includes intangible assets)[(15)]. Where the consideration paid for the assets exceeds the value of those assets, the additional amount (such as goodwill) is also part of the supply for VAT purposes.

Article 17 of the Implementing Regulations provides for conditions under which the transfer of goods or services, being the assets of an economic activity, qualifies as a transfer of an economic activity, instead of being treated as a supply of goods and services.

(13) International Accounting Standard 38 - Intangible Assets
(14) Article 1 of the Unified Agreement for VAT
(15) Article 7 of the Unified Agreement for VAT

In general terms, this Article refers to asset deals, whereby the business or an independent part thereof is transferred. Where an asset deal is determined to qualify as a transfer of an economic activity, then there is no supply of goods or services for VAT purposes in the Kingdom. Accordingly, it is not required to determine the tax treatment separately for each of the goods and services transferred.

## 6. Conditions for a Transfer of an Economic Activity to Qualify

Article 17 of the Implementing Regulations specifies the conditions that must be met by both the supplier (the transferor) and the recipient (the transferee) for a transfer of an economic activity to be considered a qualifying transfer for VAT purposes. This means that when a taxable person transfers part or all of the goods and services that constitute their economic activity as an ongoing concern, the transfer is treated as outside the scope of VAT.

The term **"as an ongoing concern"** implies that the transfer is not merely a transfer of assets and property separately, but a transfer of part or all of an existing economic activity in such a way that the recipient continues to carry out the same activity and operates the business as it was before the transfer, using the transferred assets, provided the following conditions are met:

### 6.1

The goods and services representing the economic activity, or part thereof, being transferred must be capable of functioning independently as a separate economic activity. The elements of the transferred activity must include all tangible and intangible assets necessary for carrying out the transferred economic activity.

The transfer must include all or part of the activity capable of operating independently as a separate economic activity. The purpose of the transfer is to enable the recipient (transferee) to continue the transferred activity, rather than simply acquiring the assets. These assets must be sufficient to allow for independent operation and include:

**This condition means that:**

- There must be a degree of integration among the goods and services so that collectively they can operate as an independent entity;
- The recipient must begin commercial use of the acquired goods and services as soon as possible;
- The recipient must use these goods and services for conducting an economic activity;
- The economic activity being transferred and continued must be the same activity that the transferor previously carried out.

**Example 4:**

The **Saudi Dinner Restaurant**, located in King Abdullah Economic City, was sold through an asset sale to Youssef Al-Sahi (a restaurateur). After the transfer of ownership, the restaurant was closed for one month for redesign. Additionally, the menu focus was shifted from traditional Saudi cuisine to Italian cuisine.

Even though the new owner did not continue the restaurant operations immediately due to the renovation, and the restaurant activity changed from traditional Saudi food to Italian food, this asset sale is still considered a qualifying transfer because the recipient's objective is to continue the restaurant's economic activity.

## 6.2

The recipient must be a taxable person and either already registered with the Authority or will become a taxable person as a result of the transfer, and must use the goods, services, and assets directly to carry out the same economic activity as the supplier.

### 6.2.1

The recipient must be a taxable person and either already registered with the Authority or will become a taxable person as a result of the transfer.

### 6.2.2

The recipient must use the acquired goods and services immediately to continue or commence the same activity for the transfer to be considered a qualifying transfer.

### 6.2.3

The recipient must ensure that the transferred assets are used to carry out the same economic activity as the activity previously conducted by the supplier (transferor). The assets must not be materially altered and must be used in the same way. If the recipient uses the assets to carry out a different business activity, the transfer will not qualify and will therefore be subject to VAT.

## 6.3 The supplier and the recipient must agree in writing that they intend the transfer to be considered a transfer of an economic activity for the purposes of these regulations.[16]

Applying the special rule for a qualifying transfer is optional. When the parties wish to apply the standard rules and charge VAT on the transferred assets for example, if they are unsure whether the conditions are met they may agree not to treat the transfer as a qualifying transfer under the special rule pursuant to Article 17 of the Implementing Regulations.

To evidence the parties' agreement on the date of supply, it is recommended that both parties explicitly confirm in writing that they wish the transfer to be considered a qualifying economic activity transfer before the transfer date. Note that if the transfer is initially treated as a qualifying economic activity transfer and the Authority later determines that the transferred assets were not used by the recipient to carry out the same economic activity, the Authority may retroactively hold the recipient liable for the VAT due, together with any fines and penalties. In some cases, the Authority may also consider the supplier jointly liable.

(16) Article 17, Implementing Regulations

### 6.4 Both the supplier and the recipient must notify the Authority of the transfer no later than the end of the month following the month in which the transfer occurred, using the prescribed form. The notification must include the following requirements:

1. Name and address of both the supplier and the recipient.
2. Tax Identification Number of the supplier and recipient (if registered).
3. Evidence that the recipient has submitted a registration application to the Authority as a result of completing the transfer (if not registered).
4. Date of the economic activity transfer.
5. Details of the goods and services included in the economic activity transfer.
6. A copy of the economic activity transfer agreement between the supplier and the recipient.
7. Any other documents required by the Authority.

If the economic activity transfer does not meet all conditions and requirements set out in Article 17 including notification to the Authority the goods and services constituting the transferred economic activity shall be treated as taxable supplies.

### 6.5 Determination of Cases

To determine whether an asset transfer constitutes a qualifying transfer, the facts, contractual situation, and circumstances related to the transfer of asset ownership must be analyzed.

**Example (5):**

The Saudi Woodworks Company, a company registered in the Kingdom and a leading supplier of wooden goods (such as furniture), operates five stores across the Kingdom of Saudi Arabia. As part of a corporate restructuring, the Saudi Woodworks Company transfers its Dammam branch, which specializes in wooden tables, to a taxable person in the Kingdom.

The transfer to the taxable person includes a variety of assets consisting of physical inventory, the cash register, interior furnishings of the store, and a lease agreement for the retail outlet. The recipient taxable person is also a supplier of wooden tables and intends to continue operating the store. Both the Saudi Woodworks Company and the recipient explicitly agree in writing that the transfer of the Dammam branch constitutes a qualifying transfer.

In this case, the transfer of the Dammam branch, as an independent part of the ongoing business, from Saudi Woodworks Company to the recipient taxable person, constitutes a qualifying transfer for VAT purposes in the Kingdom of Saudi Arabia. The transfer is not treated as a supply of individual goods and services. This transaction relies on the fact that the Dammam branch must operate immediately as an economic activity and that the recipient uses the acquired goods and services to carry out the same economic activity.

The Dammam branch was sold to the recipient for SAR 1,000,000 (excluding VAT). As the transfer qualifies as a qualifying transfer, VAT is not charged on this amount.

**Example (6):**

Journey Rest Company, a company registered in the Kingdom, operates a restaurant within a shopping mall. The company, as a taxable supplier, intends to transfer the restaurant through an asset sale transaction to the recipient, who intends to demolish the mall to build a historical car museum.

In this case, the transfer of assets by Journey Rest to the recipient does not constitute a qualifying transfer for VAT purposes in the Kingdom. This is based on the fact that the recipient has no intention to operate the restaurant business, as the assets are being acquired for other purposes. As a result, the supplier must charge 15% VAT on the value of the supply.

**Example (7):**

Electric Serve Plus Limited, a provider of electronic services in the United Kingdom, supplies electronic services to consumers in the GCC from the UK. Electric Serve Plus Limited transfers its entire business through an asset sale transaction to another company in the UK, which will continue the same business activity.

The assets include certain routers/network devices located in a data center in the Kingdom of Saudi Arabia. Electric Serve Plus Limited is VAT-registered in Saudi Arabia because it provides electronic services to residents in the Kingdom.

In this case, the transfer of assets by the UK-based supplier to the recipient may be considered a qualifying transfer for VAT purposes in Saudi Arabia. Although the assets located in Saudi Arabia alone are not capable of operating as an independent business, these assets are transferred as part of a broader transfer of the entire business.

Since the recipient is required to register for VAT in the Kingdom (due to the immediate continuation of business through the supply of electronic services to consumers in the Kingdom), the parties may choose to agree in writing that the asset sale constitutes a qualifying transfer. Accordingly, VAT may not be imposed in the Kingdom on any amounts allocated to the transfer of ownership of assets located in the Kingdom.

If the transfer of the economic activity does not meet all the conditions and requirements in the regulations including notification to the Authority the goods and services representing the transferred economic activity are treated as a taxable supply.

## 6.6 Implications of a Business Transfer

### 6.6.1 The recipient (transferee) assumes the rights and obligations of the supplier (transferor) relating to the transferred activity

Upon completion of a qualifying business transfer according to the agreed transfer date in the agreement between the supplier (transferor) and the recipient (transferee), the recipient taxable person assumes the supplier's rights and obligations regarding the deduction or recovery of input VAT associated with the transferred activity, including any adjustments, or output VAT previously declared to the Authority in accordance with Article 40 of the Implementing Regulations.

For VAT purposes, the date agreed upon between the parties for the transfer of the activity is relevant for the adjustment period of the capital assets. The input VAT on capital assets must be monitored throughout the specified adjustment period for those capital assets, with annual adjustments made in cases where the actual use deviates from the originally intended use. The length of the adjustment period (in years) depends on the type of asset and commences from the date the capital assets are acquired by the taxable person, in accordance with Article 52 of the Implementing Regulations, which relates to capital assets.[17]

However, if the capital asset is part of a qualifying transfer, the recipient does not purchase the asset individually but is assumed to replace the transferor. This means that if two years remain in the supplier's adjustment period, the recipient will also have two years remaining for adjustment.

**Example (8):**

Al-Thiqa Trading Company sold all the assets of its Al-Khobar branch to a transferee in the Kingdom. Part of these assets includes certain office equipment. The office equipment was acquired by Al-Thiqa Trading Company in January 2019, and the standard adjustment period of 6 years applies. In January 2021, the transfer occurred, during which the recipient assumes the obligations for reviewing and adjusting input VAT on the capital assets over the remaining 4-year adjustment period relating to the office equipment.

Furthermore, the transfer of economic activity carried out in accordance with the provisions of the regulations does not transfer the supplier's VAT registration number to the recipient. The recipient must submit a registration application to the Authority and obtain their own VAT registration number, unless they were already registered with the Authority before the transfer date.

(17) Article 52(2), Implementing Regulations

**Example (9):**

Red Sea Development Company, a VAT-registered company in the Kingdom, purchased an office building on 1st April 2019 for SAR 7,000,000, plus VAT of SAR 350,000. The company conducts partially exempt activities and estimated the taxable use at 45% at the time of purchase.

As the building is an immovable asset, the adjustment period for this asset is ten years, with the first twelve-month period starting on 1st April 2019. Upon the transfer of ownership in 2019, SAR 157,500 (45% of SAR 350,000) is claimed by Red Sea Development Company. During the first twelve-month period, from 1st April 2019 to 31st March 2020, the taxable use remains at 45%, and no adjustment to the input VAT deduction is required.

Red Sea Development Company decided to sell the company to Gulf Company, including the office building described above, under the rules for a qualifying transfer. The transfer date was set as 1st August 2022, and Gulf Company assumes the obligations relating to these assets from that date onwards.

Based on data provided by the transferee, Gulf Company determines that during the twelve-month period from 1st April 2020 to 31st March 2021, the taxable use increases to 50%. This means that an additional input VAT deduction on this asset can be claimed (5% of SAR 350,000 = SAR 17,500 annually) for this 12-month period. Although Red Sea Development Company was the original owner for part of the second twelve-month period, Gulf Company holds the right (and obligation) to adjust the input VAT deduction, which amounts to SAR 52,500. VAT obligations do not differentiate partial ownership during a twelve-month period. The parties may wish to consider this input VAT adjustment when determining the transfer price of the company.

The Implementing Regulations specify that if capital assets are sold during the adjustment period, any changes must be permanently adjusted to reflect the permanent change in the use of the capital asset.

"In cases where there is a permanent change in the use of a capital asset due to the sale of the capital asset by the taxable person, the taxable person must adjust the input VAT deduction for the remaining adjustment period of that capital asset in the tax period in which the sale occurred."[18]

Please note that this does not apply in cases where these capital assets are transferred as part of a transfer of a qualified activity, as the transfer of capital assets in this context is not considered a taxable supply of goods and services. For more information on VAT adjustments for capital assets, please refer to the Capital Assets Guideline.

The transfer of a qualified activity does not affect the responsibility of either the supplier or the recipient for tax obligations arising before or after the transfer, unless otherwise agreed between the parties. It should be noted that, in all cases, the recipient does not assume the supplier's liability for any tax violations committed prior to the transfer date, related to the goods and services being transferred.

### 6.6.2 Administrative Obligations

The transferor of an economic activity must provide copies of all commercial records related to that activity, which are required to be retained under the applicable regulations in the Kingdom, to the transferee.[19]

From the Authority's perspective, the transferor must provide or make available documents related to tax obligations at the time of transfer to the transferee, in order to allow for assessment of tax liabilities. These documents should include information regarding applicable and remaining settlement periods for capital assets, as well as VAT incurred and deducted in relation to those capital assets. It should be noted that, under normal circumstances, the information provided by the transferor should not include the transferor's own historical data, such as VAT returns submitted prior to the transfer date.

(18) Article 52(7), Implementing Regulations
(19) Article 17 Implementing Regulations

Additional guidance will be provided later regarding the use of the cash accounting basis[20] or qualifying used goods[21] in connection with the transfer of a qualifying economic activity.

However, in general, if the taxable person has obtained the Authority's approval to apply an alternative deduction scheme, the transferee must submit a separate application in their own name, as any approval granted to the transferor does not automatically transfer to the transferee as part of the qualifying transfer of ownership.

## 7. Application to Specific Cases

### 7.1 Transfer of an Economic Activity Within a Tax Group

A tax group is registered as a single taxable person.[22] Since the representative of the tax group acts on behalf of all members, they are considered to be carrying out all supplies made by the group (or by the representative themselves).

The transfer of assets within the same tax group (i.e., between members) does not constitute a transfer of a qualifying economic activity, as the supply of goods or services from one member to another within the tax group is considered outside the scope of VAT.[23]

**Example 10:**

Companies (A), (B), and (C) are all financial service providers and members of the same tax group for VAT purposes in the Kingdom. Company (C) transfers an independent part of its financial business (the mortgage brokerage division) to Company (A). This transfer includes some software programs, office supplies, and customer lists.

In this case, the transfer of ownership from Company (C) to Company (A) i**s** not considered a transfer of a qualifying economic activity for VAT purposes in the Kingdom, as the transfer occurred within the tax group.

(20) Article 46 Implementing Regulations
(21) Article 48 Implementing Regulations
(22) Article 4 Unified VAT Agreement
(23) Article 18(2) Implementing Regulations

However, if the establishment of the Tax Group results in tax advantages that are inconsistent with the objectives of the VAT Law, and obtaining such advantages constitutes one of the principal purposes of forming the Tax Group, the Authority may issue a notice to the Tax Group to terminate it[24]. This means that a Tax Group may not be used to prevent the imposition of tax on a non-qualifying transfer of an Economic Activity. Further information and examples are available in the Guideline on Tax Groups.

## 7.2 Transfer of Real Estate

The sale of real estate located in the Kingdom, by way of transfer of ownership, constitutes a supply of goods that is exempt from VAT and is subject to the provisions of the Real Estate Transaction Tax. For further information, please refer to the Guideline on Real Estate Transaction Tax. Such transactions are, in principle, subject to tax at the standard rate of 15%. This treatment applies whether the supplier or the recipient is a resident in the Kingdom or not.

The Authority does not presume that the sale of real estate, in and of itself, constitutes a qualifying transfer. However, in cases where the real estate is used for the purpose of carrying on an Economic Activity, the transfer of ownership of the real estate together with other assets may form part of the operation of the business and may, in specific circumstances, qualify as a transfer of a qualifying Economic Activity. For example, the sale and transfer of ownership of a commercial property together with the continuation of an existing lease may be regarded as an Economic Activity in its own right. In order to be treated as a qualifying transfer of an Economic Activity, the transfer of ownership of the real estate must satisfy the other conditions set out in Section 5.2.1 of this Guideline[25]. It should be noted that real estate supplies are exempt from VAT and are subject to Real Estate Transaction Tax. For further information, please refer to the relevant Guidelines on Real Estate Transaction Tax.

**Example (11):**

Al Anoud Real Estate Development and Leasing Company, a company registered in the Kingdom, transferred its assets relating to the ownership and management of "Jeddah Central Mall" in the city of Jeddah to a competitor operating in the same market.

(24) Article 12 (7), Implementing Regulations 35
(25) Article 17, Implementing Regulations

**The transfer of these assets comprised the following elements:**

- Transfer of ownership of the real estate
- Lease agreements with the existing tenants of the shopping mall
- Operating license for the shopping mall
- Contracts with third parties for property management
- The trademark "Jeddah Central Mall"

Both parties agreed in writing that the transferee would continue the Company's activity. The parties further agreed that the transfer of these tangible and intangible assets constitutes a qualifying transfer of an Economic Activity. Accordingly, VAT is not required to be imposed on the transfer of these assets (including the real estate)

# 8. Input VAT Deduction

## 8.1 General Principles

A person registered for VAT purposes may deduct input VAT charged on goods and services purchased or received in the course of carrying out their economic activity. Input VAT may be deducted on:

- VAT charged by a registered supplier in the Kingdom.
- VAT self-assessed by a person registered for VAT under the reverse charge mechanism.
- VAT on imports paid to the Authority when goods are imported into the Kingdom.

As a general rule, input VAT relating to exempt supplies may not be deducted.

In addition, input VAT may not be deducted on any expenses incurred that are not related to the taxable person's economic activity (including certain restricted expenses such as entertainment services, cultural services, catering services, and restricted vehicles)[26], or any other costs related to supplies exempt from VAT. Input VAT is treated as a credit to be reported in the VAT return and deducted from VAT payable on supplies (output VAT) made during that period.

(26) Article 50, Implementing Regulations List of restricted expenses.

Input VAT may only be deducted if the taxable person holds a tax invoice or customs documentation evidencing the tax due, or an alternative document showing the amount of input VAT paid or due, subject to the Authority's approval[27].

## 8.2 Proportional Deduction of Input VAT

Input VAT relating to exempt supplies of the taxable person, such as exempt financial services or residential rent (note that real estate supplies are exempt from VAT and subject to the Real Estate Transactions Tax; for more information, refer to the Real Estate Transactions Tax Guidelines), may not be deducted. If the taxable person's supplies include both VATable and exempt supplies, the person may deduct input VAT attributable to the VATable portion. In cases where the taxable person incurs general expenses or costs that relate to both VATable and exempt supplies, these expenses and costs must be accurately apportioned to determine the portion attributable to VATable supplies. Input VAT is determined according to the following rules[28]:

| | |
|---|---|
| Input VAT directly attributable to VATable supplies | Full deduction allowed |
| Input VAT directly attributable to exempt supplies | No deduction allowed |
| General expenses and input VAT that cannot be directly allocated | Partial deduction based on apportionment |

General expenses/costs incurred by a person subject to VAT in relation to both VATable and exempt supplies must be apportioned to reflect the correct use of those costs in the VATable portion of the taxpayer's activities.

The proportional deduction for the value of VATable supplies made during a specific year is calculated using the following default method:

$$\frac{\textbf{Value of VATable supplies made by the taxpayer during the previous calendar year}}{\textbf{Total value of VATable and exempt supplies made by the taxpayer during the previous calendar year}}$$

The method mentioned above does **not** include supplies of capital assets made by the taxpayer, as the value of capital asset supplies is excluded from the total annual value of VATable supplies, provided that the capital asset is used in operating and maintaining the continuity of the economic activity carried out by the person in accordance with a commercial register or a similar license

(27) Article 49(7), Implementing Regulations.
(28) Article 51, Implementing Regulations

from the competent authority; and the asset has **not** been retained to generate rental income or equivalent revenue, or for subsequent supply.

The Authority may approve alternative methods for calculating the default proportional deduction where they better reflect the actual use of the VAT incurred. For more information on input VAT deduction and partial VAT recovery, please refer to the VAT Input Deduction Guideline.

## 8.3 VAT Deduction on Expenses Incurred by the Transferor for Asset Transactions

VAT deduction incurred by the transferor depends on the tax implications related to the transfer of assets.

### 8.3.1 Input VAT Deduction Related to the Sale of Assets as a Qualifying Transfer

If the transfer of assets is considered a qualifying transfer under the Implementing Regulations, this means that the transfer is outside the scope of VAT. In this case, there are no supplies of goods or services for VAT purposes, and therefore it is not required to determine the tax treatment for each supply of goods or services during the transfer.

VAT incurred by the transferor on a qualifying transfer is deductible in accordance with the deduction ratio applied to the transferor's economic activity, using the appropriate deduction percentage[29].

**Example (13):**

Gulf Toys Company, specialized in manufacturing taxable toys, intends to transfer its children's equipment business to Limited Toys Company.

(29) Article 51 (11), Implementing Regulations

**The assets to be transferred consist of:**

- Physical inventory
- Brand name
- Customer list
- Office lease where the business is conducted

While Limited Toys Company intends to continue the toy manufacturing operations, and the parties have agreed that the asset transfer constitutes a qualifying transfer, the transfer falls outside the scope of VAT. Gulf Toys Company has incurred costs related to the transfer of the toy manufacturing business.

Gulf Toys Company continues with the remainder of its operations, consisting of taxable supplies of toys for older children. VAT incurred on the costs associated with the transfer is deductible in accordance with Gulf Toys Company's overall economic activity ratio (100%).

### 8.3.2 Deduction of Input VAT Incurred in Relation to the Sale of Assets That Are Not Qualifying Transfers

If the transfer is not qualifying according to the Implementing Regulations, the VAT treatment of each supply of goods and services must be determined. In most cases, the sale of assets -Except for real estate sales- is subject to VAT.

Regarding costs incurred on the sale of assets, input VAT is attributed to those sales. The general provisions set out in Sections 8.1 and 8.2 of this Guideline apply to determine the extent to which the transferor may deduct input VAT incurred on the transfer of assets.

If all sold assets are subject to VAT at the standard rate of 15%, the related input VAT may be fully deductible.

## 8.4 Deduction of VAT on Expenses Incurred by the Transferor in Share Transfers

The deduction of VAT incurred by the transferor depends on the VAT effects related to the transfer of shares.

### 8.4.1 Deduction of Input VAT Incurred on the Sale of Shares by a Transferor Engaged in Economic Activity

If the transferor supplies shares as part of its business and in the course of conducting its economic activity, the transfer of shares is treated as an exempt supply for VAT purposes. Accordingly, any VAT incurred directly related to this exempt supply (e.g., legal fees) cannot be deducted by the transferor.

**Example (14):**

Al-Hassan Electronics Supply Company in Al-Khobar intends to focus on its core operations by selling the photography division activity-Independent production line-. Based on legal and technical studies conducted by a third party and legal counsel, the company transferred the entire section/activity (photography) to Faisal Photography Company.

The proceeds were used to expand the company's supplies of electronics, fully subject to VAT.

Al-Hassan incurred consulting costs of SAR 1,000,000 in connection with the share transfer.

These expenses are considered one-off and non-ordinary for Al-Hassan and its economic activity. Accordingly, the input VAT on these expenses may be deducted in accordance with the applicable deduction percentage of 100%.

## 8.5 Deduction of VAT on Expenses Incurred by the Transferee

Depending on the nature of the transfer, the transferee may incur costs related to:

- The transfer process from the transferor, if the assets are transferred as part of a supply subject to VAT, or
- Third-party costs associated with the acquisition of the business (such as legal, financial, or other consulting fees).

The general provisions set out in Sections 8.1 and 8.2 of this Guideline apply to determine the extent to which the transferee may deduct input VAT incurred on the transfer or related expenses.

# 9. Tax Obligations

Every person subject to tax must assess their tax liability and comply with the conditions and obligations related to VAT. This includes registration for VAT where applicable, accurately calculating the net tax payable, paying the tax by its due date, maintaining all necessary records, and cooperating with the Authority's staff upon request.

If a person is uncertain about their obligations, they should contact the Authority through the website zatca.gov.sa or other communication channels, and may also seek external advice from a qualified consultant. The following outlines the main tax obligations stipulated in the Law and the Implementing Regulations.

## 9.1 Issuance of Invoices

The supplier must issue a tax invoice for every supply subject to VAT made to another person registered for VAT purposes or to any legal person. A simplified tax invoice may be issued if the supply value is less than SAR 1,000 or if the supply is made to natural persons not subject to VAT. In all cases, the invoice must be issued no later than fifteen days after the end of the month in which the supply occurred.

The tax invoice must clearly include certain data and information, such as the invoice date, the supplier's Tax Identification Number (TIN), the taxable amount, the applied tax rate, and the VAT amount charged[30]. If different rates are applied to various supplies, the value of each item must be specified separately, along with the VAT applied to that item.

A tax invoice may be issued in the form of a commercial document (such as a ticket receipt), provided that this document includes all the requirements for issuing a tax invoice and a simplified tax invoice as stipulated in the Implementing Regulations of the Law.[31]

Further information on the tax invoice requirements can be obtained from the General VAT Guide or the VAT Invoicing Guideline or E-Invoicing Guideline

(30) For further details, please refer to the VAT Invoicing Guideline and Article 53 of the Implementing Regulations.
(31) Article 53, Implementing Regulations

## 9.2 Filing VAT Returns

Every person registered for VAT purposes, or a person authorized to act on their behalf, must submit a VAT return to the Authority for each tax period, whether monthly or quarterly, as applicable. The VAT return constitutes a self-assessment by the taxpayer of the tax due for that period.

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

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

If the VAT return gives rise to a VAT amount refundable to the taxpayer, or if the taxpayer has a credit balance for any reason, the taxpayer may claim a refund of this amount after submitting the VAT return or at any later time within the following five years, or use it as a credit to offset taxes due in a subsequent tax period, by submitting a refund request to the Authority. The Authority will review such requests and pay the amount due for accepted refund claims directly to the taxpayer.(32)

## 9.3 Record Keeping

All VAT-registered persons must maintain adequate tax records relating to the calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable for each transaction and in the VAT return. In general, this includes:

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

(32) Article 69, Implementing Regulations

Records may be maintained in either paper or electronic form, provided that the conditions specified in the Implementing Regulations of the Law are met.

Records must be made available to the Authority upon request. All records must be retained for at least the basic retention period of 6 years. The minimum retention period extends to 11 years for invoices and records relating to transferred capital assets, and 15 years for invoices and records relating to non-transferred capital assets.[33]

## 9.4 VAT Registration Certificate

A resident taxpayer registered with the Authority in the VAT system must display the VAT registration certificate at their principal place of business and at all branches, including the online store, in a manner visible to the public. Failure to comply will subject the violator to the penalties stipulated in the Law.

## 9.5 Correction of Prior Errors

If a taxpayer identifies an error or inaccuracy in the amount declared in their submitted VAT return, or fails to comply with any tax obligation, they must notify the Authority and correct the error by amending the VAT return.

If the error results in a tax discrepancy exceeding SAR 5,000, the taxpayer must notify the Authority within 20 days of becoming aware of the error or incorrect amount and amend the previous return. For minor errors resulting in a tax discrepancy of less than SAR 5,000, the error may be corrected by including that amount as an increase in the net tax due to be declared in the VAT return submitted to the Authority for the tax period during which the error was discovered.[34]

For more information on error correction, please refer to the Authority's website: zatca.gov.sa

(33) Articles 66 and 52, Implementing Regulations
(34) Article 63, Implementing Regulations

## 10. 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.[35]

**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.<br>• 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.<br>• 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 down 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.

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.

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

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 controls.

**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, in the event that 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 controls.
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: Controls 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 issued on the classification of general VAT violations.

## 11. Request for an Interpretative Decision (Tax Ruling)

If you are unsure about how VAT applies to a specific activity or transaction, after reviewing the relevant statutory provisions and the related guidance, you may submit a request to the Authority for an interpretive decision, in accordance with the provisions of the Guideline on Requests for Tax Ruling

## 12. Contact Us

For further information regarding any VATable transaction, please visit the website:



zatca.gov.sa

or contact us at the following number:



19993

## 13. Frequently Asked Questions

1. **Is the transfer of ownership of assets subject to VAT?**

No. Any legal act resulting in the transfer of ownership of real estate, or its possession for the purpose of acquiring ownership or usufruct, whether for consideration or without consideration, is exempt from VAT and subject to Real Estate Transaction Tax at a rate of 5% of the total value of the real estate disposal, regardless of its condition, form, or use at the time of disposal.

2. **Is the sale by a company of fixed assets forming part of its economic activity subject to tax?**

Yes, in principle, the sale of assets that form part of an economic activity is subject to tax, and may include tangible assets (such as equipment) and intangible assets (such as a trademark).

### 3. Is the sale or purchase of shares in a company subject to tax?

No. The transfer of ownership of a company through the sale of shares, as financial securities, constitutes a supply of financial services that is exempt from VAT. The transferor must not charge VAT on such sale.

### 4. Is the owner of a company required to charge VAT if they sell the entire company?

If a taxable person sells all assets constituting their economic activity to another taxable person who carries on the same activity, the transferor and the transferee may agree that the sale constitutes a transfer of an economic activity, rather than a supply of the underlying goods and services. For this purpose, the transaction must satisfy the criteria and conditions set out in Article 17 of the Implementing Regulations of the VAT Law in the Kingdom.

### 5. What tax obligations apply to a person who sells all the company's assets?

If a taxable person wishes to supply assets (as transferor) under the special rules relating to the transfer of an economic activity, they must obtain written confirmation that the transferee also intends the transaction to be treated as a transfer of an economic activity.

The transferor must consider whether deregistration is required as a result of this transaction and must notify the Authority within 30 days of such transfer.

The transferor must provide sufficient business records enabling the transferee to determine their tax obligations in respect of the transferred business as at the date of transfer.

### 6. May a person deduct Input VAT incurred on legal fees relating to the sale of a company?

The applicable tax treatment depends on the nature of the transaction. If the company is sold as a taxable supply of assets, the deduction of Input VAT on the related costs is permitted.

If the company is sold as a transfer of an economic activity, or as a one-off and incidental sale of shares related to the transferor's economic activity, the transferor may deduct the Input VAT incurred in accordance with the proportional deduction rules applicable to the company that continues to operate.

In all cases, the rules governing the application of Input VAT deduction must be carefully examined by the transferor prior to claiming the deduction.



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or visit the website zatca.gov.sa