



Guideline for Insurance and Reinsurance Activities under VAT Provisions

Amendment Log

#	Edition .No	Amendment Date	Section/Item	Type	Description of Amendment	Notes
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The Zakat, Tax and Customs Authority (henceforth 'ZATCA') has issued this Guideline to clarify certain treatments related to the implementation of the statutory provisions in force on the date of its issuance. The content of this Guideline shall not be deemed an amendment to any of the laws and regulations in force in the Kingdom of Saudi Arabia.

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



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Application of the Value Added Tax (VAT) System in the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia ratified the Unified VAT Agreement for the Cooperation Council for the Arab States of the Gulf ("GCC") pursuant to Royal Decree No. (M/51) dated 3rd Jumada Al-Awwal 1438H/31st January 2017 (the "Unified VAT Agreement").

In accordance with the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia enacted the VAT Law by Royal Decree No. (M/113) dated 2nd Dhu Al-Qi'dah 1438H/25th July 2017 (the "VAT Law"), as well as the Implementing Regulations of the VAT Law issued by the Board of Directors of the General Authority of Zakat and Tax (formerly), now the Zakat, Tax and Customs Authority - Resolution No. (3839) dated 14th Dhu Al-Hijjah 1438H/5th September 2017 (the "Implementing Regulations"), as amended by subsequent Board resolutions.

Zakat, Tax and Customs Authority (ZATCA)

The Cabinet Resolution Number 570, dated 22nd Ramadan 1442H/4th May 2021, was issued to merge the General Authority of Zakat and Tax and the General Authority of Customs into a single entity named the Zakat, Tax and Customs Authority.

The Authority is responsible for the collection of Zakat, taxes, and customs duties, while ensuring the highest levels of taxpayer compliance through efficient, best-practice methodologies. Furthermore, the Authority seeks to enable the Kingdom to become a global logistics hub by facilitating trade and protecting national security. This includes the regulation and management of all customs activities and ports to ensure maximum efficiency, productivity, and competitiveness, all delivered through high-quality, customer-centric services in accordance with best practices.



Subject of the Guideline

This guideline addresses the application of VAT on insurance and reinsurance activities carried out by companies and provides an interpretation of the VAT Law and its Implementing Regulations in this regard.

1. Insurance Activities

- The essence of the insurance activity model is the insurer's (insurance company) agreement to assume risks on behalf of the customer (the "Policyholder") upon the occurrence of an unexpected future event. When such an unexpected event occurs, the policyholder/beneficiary may file a claim against the insurance company. The policyholder must pay an insurance premium to the insurance company in exchange for protection against uncertain future events within the scope of the policy.
- In most cases, policyholders are companies and/or individuals resident in the Kingdom who insure themselves or their assets within the Kingdom. Some insurance companies also appoint insurance agents/brokers to sell life and general insurance products in the market on behalf of the insurance company.
- From a VAT perspective, services provided under insurance transactions involving a broker entail two supplies of services:
 1. The insurance premium paid/due by the policyholder to the insurance company as consideration for the supply of insurance services by the insurance company.
 2. The brokerage commission paid/due by the insurance company to the insurance broker for the brokerage services provided by the insurance broker.
- Generally, all insurance contracts (except life insurance contracts)¹ provided in the Kingdom and all insurance products are subject to VAT at the standard rate. This includes all products defined by the Saudi Central Bank (SAMA) as related to general insurance, health insurance, or any other insurance-related services.

1. Article 29(7), Financial Services, VAT Implementing Regulations



2. Reinsurance Activities

- Insurance companies typically share proportions of the underwritten risks. Insurance providers use this process as a means of spreading risk to reduce potential losses resulting from compensating policyholders for large amounts when an insured event occurs. Insurance companies generally manage loss risks by purchasing reinsurance policies/services from a single reinsurance provider ("Reinsurers") or a group of them. The reinsurance service provider may be located in the same country as the insurance company or in another country.
- From a VAT perspective, services provided under reinsurance transactions involve the payment of three fees:
 1. Reinsurance brokers' commission paid/due by the reinsurer to the reinsurance agent/broker.
 2. The reinsurance premium paid/due by the insurer to the reinsurer for insuring the insurer's risk portfolio.
 3. The reinsurance commission received by the insurance company from the reinsurer allows the reinsurer to profit from the insurer's risk portfolio and to compensate the insurance company for its costs.

3. VAT Treatment for Insurance Contracts and Premiums (For the Insurer and Policyholder)

3.1 Life Insurance

- Life insurance contracts² under which life insurance services are supplied by a licensed insurance provider (insurance company) in the Kingdom, or any similar contract provided by a non-resident supplier, are exempt from VAT in the Kingdom. Consequently, no VAT is charged on them.
- Although life insurance supplies are exempt from VAT as part of exempt financial services, if insurance/Takaful companies charge fees on each insurance policy, whether fees are collected at the commencement of the contract or with each installment, these fees are subject to VAT, as they are explicitly paid as a fee based on Article 29 of the VAT Implementing Regulations.³

2. Article 29(8), Financial Services, VAT Implementing Regulations: "Life Insurance Contract means any traditional or Takaful insurance contract or any Islamic insurance provided by a licensed provider in the Kingdom, resulting in the payment of a conditional sum upon death or the occurrence of a life-affecting event, or any similar contract provided by a non-resident supplier."

3. Article 29(1), Financial Services, VAT Implementing Regulations: "Supplies of financial services specified in this Article shall be exempt from VAT, except where the consideration payable for the service is explicitly paid as a fee, commission, or commercial discount".

**Example:**

A Saudi insurance company registered in the Kingdom sells life insurance products for the employees of another company for a premium of SAR 50,000 and charges a policy issuance fee of SAR 2,000. Since life insurance is VAT-exempt, no VAT is charged on the life insurance premiums, but the policy issuance fees are not considered part of the exempt supplies. The insured company pays only SAR 50,000 as a premium to the insurance company and pays SAR 2,300 for the fee amount and the VAT applied to it.

3.2 General Insurance

- Conversely, general insurance or health insurance contracts under which insurance services are supplied by an insurance provider (insurance company) are subject to VAT at the standard rate.

Example:

The insurance company mentioned in the previous example sells a general insurance product to another company for a premium of SAR 100,000. The insurance company charges 15% VAT on the premium as follows:

Premium	SAR 100,000
VAT at 15%	SAR 15,000
Total	SAR 115,000

The insured company pays SAR 115,000 to the insurance company and will be able to deduct the paid tax of SAR 15,000 from the Authority, provided that the purchased general insurance is related to the company's taxable economic activities, in accordance with the rules and requirements for input tax deduction.

4. Article 29(8), Financial Services, VAT Implementing Regulations



4. VAT Treatment for Reinsurance Contracts (For the Original Insurer and the Reinsurer)

4.1 Resident Insurer and Resident Reinsurer

4.1.1 Life Insurance

- Life reinsurance contracts⁴, under which life reinsurance services are supplied by a licensed reinsurance provider (insurance company) in the Kingdom, or any similar contract provided by a non-resident supplier, are exempt from VAT in the Kingdom. Consequently, no VAT is charged on them.
- The reinsurance commission on life insurance contracts is subject to VAT; however, the taxable reinsurer in the Kingdom cannot deduct the VAT paid in this regard as it relates to an exempt supply.

Example:

Insurance Company (C) requests reinsurance for its life insurance portfolio through a resident reinsurer in the Kingdom (D) for a reinsurance premium of SAR 50,000, plus a 20% reinsurance commission. The insurance company pays the premium of SAR 50,000 to the resident reinsurer without any VAT, due to the exemption of life reinsurance contracts. The insurance company charges 15% VAT on the reinsurance commission as follows:

Reinsurance Commission	SAR 10,000
VAT at 15%	SAR 1,500
Total	SAR 11,500

Company (D) pays SAR 11,500 to the insurance company and cannot deduct the paid tax of SAR 1,500 in its tax returns submitted to the Authority because the expenses incurred (inputs) are related to an exempt supply.



4.1.2 General Insurance

- Reinsurance premiums for general or health insurance paid by a taxable resident insurer in the Kingdom to a resident reinsurer (as a supplier of reinsurance services) are subject to VAT in the Kingdom. This tax is deductible as input tax according to general deduction rules, as it relates to a taxable supply.
- The reinsurance commission on general or health insurance contracts is subject to VAT. The insurance company (the supplier) charges and collects the tax via tax invoices from the reinsurer (the customer). The resident reinsurer can deduct the VAT paid in this regard as it relates to a taxable supply.

Example:

Insurance Company (E) requests reinsurance for its general insurance portfolio through a resident reinsurer in the Kingdom (F) for a reinsurance premium of SAR 100,000, plus a 20% reinsurance commission. The insurance company pays the premium of SAR 115,000 to the resident reinsurer and deducts the VAT of SAR 15,000 from the Authority as the expenses are related to a taxable supply. The taxable reinsurer declares and remits the tax to the Authority within the tax return.

The reinsurance company charges 15% VAT on the reinsurance premium as follows:

Reinsurance premium	SAR 100,000
VAT at 15%	SAR 15,000
Total	SAR 115,000

Additionally, the insurance company charges 15% VAT on the reinsurance commission as follows:

Reinsurance premium	SAR 20,000
VAT at 15%	SAR 3,000
Total	SAR 23,000



The reinsurance company (F) pays SAR 23,000 to the insurance company and deducts the paid tax of SAR 3,000 from the Authority, as the expenses incurred are related to a taxable supply. The taxable insurance company declares and remits the tax to the Authority within the tax return.

4.2 Resident Insurer and Non-Resident Reinsurer

4.2.1 Life Insurance

- Life reinsurance premiums paid by a resident insurer in the Kingdom to a non-resident reinsurer are not subject to VAT; i.e., no VAT is calculated in the first place.
- The reinsurance commission on life insurance contracts is subject to VAT at the zero rate, subject to fulfilling the criteria and conditions set out in the provisions of Article 33 of the VAT Implementing Regulations.

Example:

Insurance Company (G) reinsures its life insurance portfolio through a non-GCC resident reinsurer (H) for a reinsurance premium of SAR 50,000, plus a 20% reinsurance commission. The non-resident reinsurer does not charge any VAT on the premiums. The insurance company pays the reinsurance premium of SAR 50,000 to Company (H) and is not required to calculate the tax using the reverse charge mechanism.

The insurance company charges 0% VAT on the reinsurance commission as follows:

Reinsurance Commission	SAR 10,000
VAT at 15%	SAR 0
Total	SAR 10,000

The non-resident company (H) pays SAR 10,000 to the insurance company.



4.2.2 General Insurance

- Reinsurance premiums for general or health insurance paid by a taxable resident insurer in the Kingdom to a non-resident reinsurer are subject to VAT in the Kingdom. VAT is calculated using the Reverse Charge Mechanism.
- The reinsurance commission on general or health insurance contracts is subject to VAT at the zero rate, except in certain cases mentioned in Article 33 of the VAT Implementing Regulations.

Example:

Insurance Company (I) requests reinsurance for its general insurance portfolio, through a non-resident reinsurer (J), for a reinsurance premium of SAR 100,000, plus a 20% reinsurance commission. The non-resident reinsurer does not charge any VAT on the premiums. The insurance company pays the reinsurance premium of SAR 100,000 and calculates the due VAT using the reverse charge mechanism.

The insurance company charges 0% VAT on the reinsurance commission as follows:

Reinsurance Commission	SAR 20,000
VAT at 15%	SAR 0
Total	SAR 20,000

Company (J) pays SAR 20,000 to the insurance company.



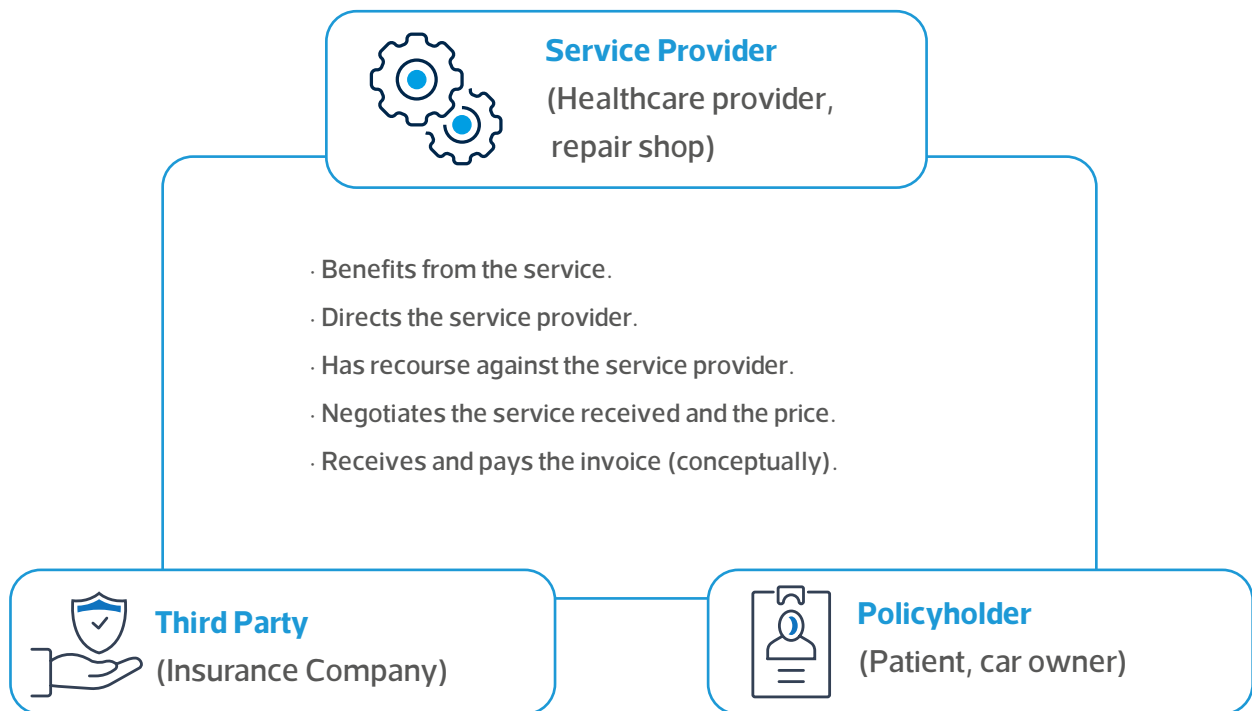
5. Insurance Claims

- For VAT purposes, a “Customer” is defined as the person receiving goods or services⁵. Under general VAT rules, the customer is usually identified through contractual arrangements, which include:
 1. The person who directs the supplier regarding the supply of goods or services.
 2. The person who enters into a contract with the supplier.
 3. The person who has the authority to compel the supplier to perform and comply with its contractual obligations regarding the supply of goods and services.
- Generally, the value of insurance contracts concluded with individuals or non-taxable persons is calculated such that payments made by insurance companies under the policy are inclusive of VAT. Conversely, for contracts with taxable persons registered for VAT, payments under the policies are not inclusive of VAT because policyholders can deduct the taxes incurred.
- In the context of an insurance claim, the policyholder (e.g., the patient in medical insurance, the car owner in motor insurance) benefits directly from the services performed by the service provider (e.g., healthcare provider, auto repair shop). If an unexpected event occurs, the policyholder may file a claim against the insurance company. It is assumed, however, that the policyholder is the recipient of the services, unless expressly proven otherwise. This remains the case even if the service provider issues the invoice to a third party (the insurance company) or if the third party is responsible for payment to the provider, as shown in the following diagrams:

5. Article 1, Definitions, Unified VAT Agreement.



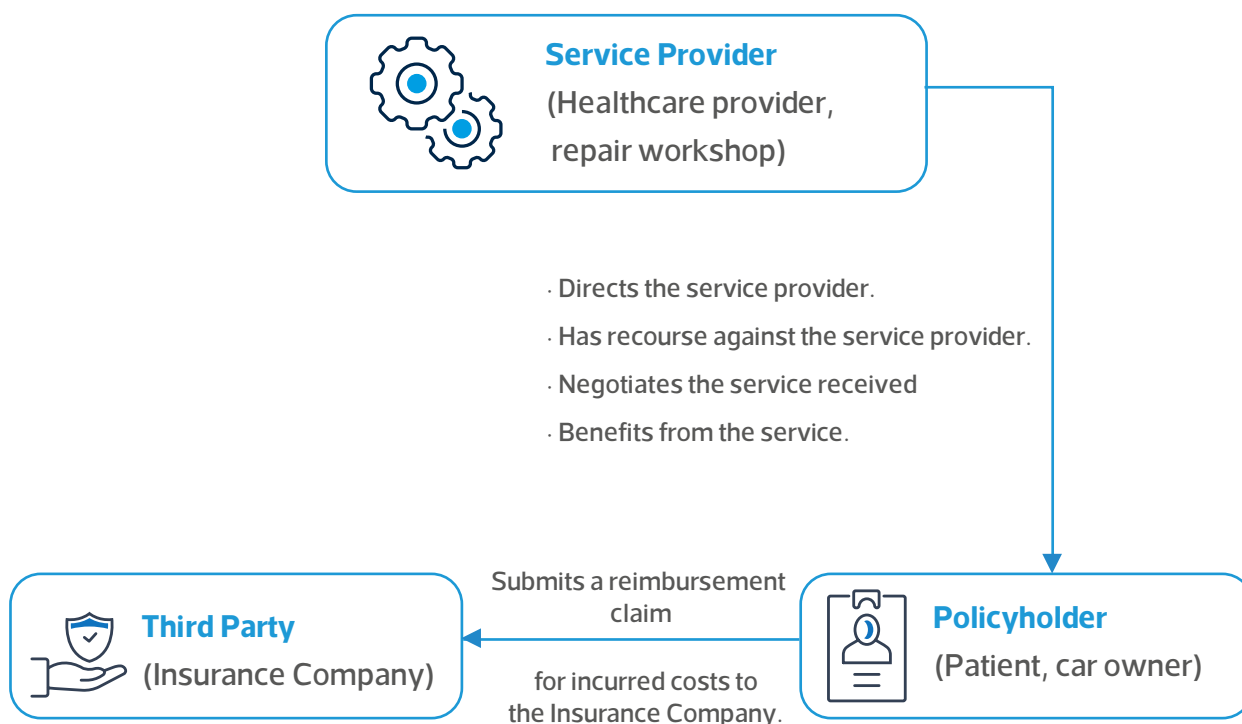
Diagram (1): The insurance company is the Customer for VAT Purposes



- The above scenario differs when the policyholder pays the service provider directly and subsequently submits a reimbursement claim to the insurance company.



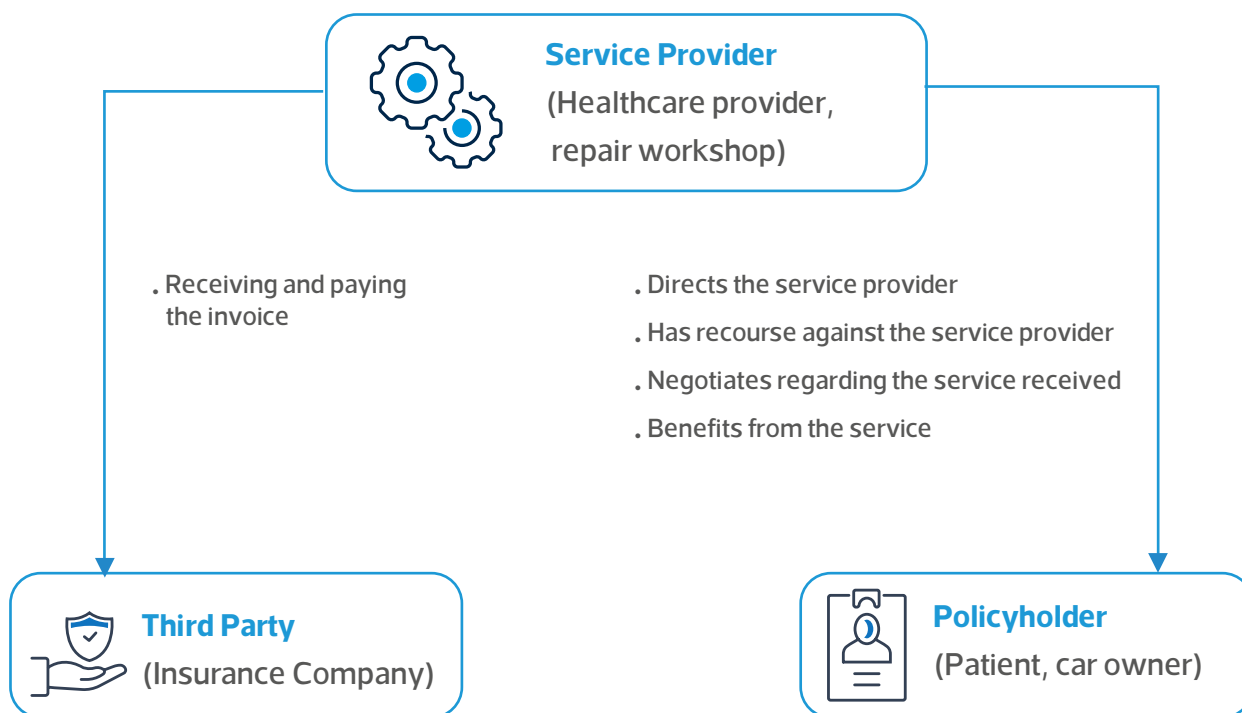
Diagram (2): Policyholder pays the provider then files a claim to the Insurer



- Insurance companies cannot claim a deduction for input tax related to cash claim payments made to the insured. Only input tax incurred by the insurance company on supplies made directly to it is deductible. Thus, there is an additional cost for insurance companies when paying VAT-inclusive amounts under policies provided to non-taxable persons.
- In some cases, the third party (insurance company or employer) may have the authority to direct the contracted service provider to provide services to the policyholder to fulfill its own obligation under a contract or policy. In these instances, the insurance company may be the primary customer/recipient, even if the policyholder directly receives the benefit.



Diagram (3): The Policy Holder is the Customer for VAT Purposes



- Consequently, a person may benefit from goods or services provided under a contract to which they are not a direct party, without being the "Customer" for VAT purposes.
- For VAT purposes, the compensation payments are considered outside the scope of VAT when the insurance company pays them to fulfill its obligation under the policy (rather than as consideration for a supply), specifically where the compensation is paid to the policyholder or where the policyholder is the customer.
- Where claims are made directly by service providers to insurance companies as the contractual customer, the insurance company may deduct the tax on the total claim value as it is considered input tax on a taxable supply received by the company.



5.1 Reinsurer's Share of the Claim

- Under the reinsurance agreement between the Insurance Company and the Reinsurer, the Reinsurer is committed to indemnifying the Insurance Company for payments made in relation to insurance activities.
- The extent of the Reinsurer's obligation depends on the actual payments made by the Insurance Company to settle its liability under an insurance contract with the policyholder, specifically when a claim-triggering event occurs (e.g., hospital treatment).
- Generally, unless the Insurance Company has made a payment or is liable to pay, the Reinsurer holds no obligation toward the Insurance Company under the reinsurance agreement.
- The reinsurance agreement can be considered an indemnity provided by the Reinsurer to the Insurance Company (subject to the terms of the agreement) for claims settled by the Insurance Company in its insurance business.
- The Reinsurer's share of paid claims is considered outside the Scope of VAT.
- However, in cases where supplies exist pursuant to insurance claims submitted by service providers to insurance companies as the "contracting customer", where the Insurance Company may deduct the tax on the total value of claims from service providers as input tax on a taxable supply received, it must be noted that if the Insurance Company deducts the full VAT on these claims (including the reinsurance share), the Insurance Company must treat the invoicing of the Reinsurer for its share of the claims as consideration for a supply subject to VAT.
- Note that this supply is treated as taxable at the standard rate for Reinsurers resident in the Kingdom, and may be treated as a zero-rated taxable supply in transactions with non-resident Reinsurers, provided that the conditions mentioned in Article 33 of the VAT Implementing Regulations are met.



6. Processing of Insurance Claims (Maintenance / Medical Treatment)

- Both the original insurer and the reinsurer may settle insurance claims through cash payments or by the insurer covering the costs of treatment or property repair to restore it to its original condition. If the insurer makes a payment to the policyholder, this is not considered a supply made by the insurer for VAT purposes, and no tax liabilities arise in relation to the amount received.
- Services provided to the policyholder under a contract between the insurer and the service provider are subject to VAT.
- A resident insurer may deduct the VAT paid under a tax invoice issued in the insurer's name; the policyholder is not required to fulfill any tax obligations.
- If services are provided to the policyholder without a contract between the insurer and the service provider, VAT is still applied. However, in this case, the resident insurer will not be able to deduct the paid VAT, and the policyholder is not required to fulfill any tax obligations.
- If the policyholder pays the service provider and subsequently submits a reimbursement claim to the insurer, the insurer shall pay the compensation to the policyholder, inclusive of VAT or as specified in the insurance policy. Although the resident insurer is not permitted to deduct the paid VAT, a resident policyholder may deduct the VAT if they are a taxable person and the paid tax is related to their economic activity.

Example:

Policyholder (K) requests a service from a service provider (L) under an insurance contract with insurance company (M). The cost of the service is 1,000 SAR. The service provider issues its invoice to the insurance company due to the existence of a contract between the service provider and the insurance company.

The service provider charges 15% VAT on the services provided to the policyholder as follows:

Services	SAR 1,000
VAT at 15%	SAR 150
Total	SAR 1,150



The policyholder benefits from the services, while the insurance company pays 1,150 SAR to the service provider and deducts the 150 SAR tax amount from the Authority, as it relates to a taxable supply.

If there is no contract between the service provider and the insurance company, the service provider charges 15% VAT on the services provided to the policyholder as follows:

Services	SAR 1,000
VAT at 15%	SAR 150
Total	SAR 1,150

The policyholder benefits from the services and the tax invoice is issued in their name, while the insurance company pays 1,150 SAR to the service provider.

The insurance company will not be able to deduct the tax amount because there is no contract between it and the service provider, and because the tax invoice is not issued in the company's name.

Another scenario is where the policyholder requests services from a service provider, who in turn issues an invoice to the policyholder. The policyholder then submits a claim for reimbursement of the paid amount under the insurance contract with the insurance company.

The service provider charges 15% VAT on the services provided to the policyholder as follows:

Services	SAR 1,000
VAT at 15%	SAR 150
Total	SAR 1,150

The policyholder pays 1,150 SAR to the service provider. The policyholder may deduct the 150 SAR tax amount if they are a taxable person and the paid tax is related to their economic activity. In this case, the insurance company pays 1,000 SAR to the policyholder to settle the claim.



7. Tax Deduction

- The right of an insurance (or reinsurance) company to deduct VAT incurred on purchases depends on the goods and services being used for the purpose of conducting its economic activities in the context of making taxable supplies⁶. In general, the terms and conditions for tax deduction must be observed⁷, as mentioned in Article 48 of the Unified VAT Agreement and Article 49 of the VAT Implementing Regulations. Furthermore, VAT related to expenses deemed to be received outside of the economic activity (restricted) may not be deducted, in accordance with the provisions of Article 50 of the Implementing Regulations.
- The phrases “for the purposes of conducting economic activity” and “in the context of making taxable supplies” mean that the deduction of VAT requires a link between the purchased supplies and the insurance company’s taxable supplies.
- An insurance company may not deduct VAT incurred on purchases that fall outside the scope of its economic activity, or input tax related to exempt activities (e.g., the sale of life insurance). Conversely, VAT incurred on expenses directly and entirely attributed to taxable supplies (e.g., general insurance) may be deducted in full.
- VAT incurred on expenses that relate partially to taxable supplies and partially to exempt supplies must be apportioned for deduction purposes. Expenses that cannot be directly attributed to either taxable or exempt supplies are usually referred to as “overhead costs” or “non-attributable expenses.”⁸

Example:

An insurance company issues a motor insurance policy to individual customers. After “Person F” insured his car, he was involved in an accident that required him to go to a repair shop (the service provider). “Person F” instructed the shop to issue the repair invoice in the name of the insurance company. He then provided the invoice to the insurance company for reimbursement, and the company compensated him according to its policy. In this case, the insurance company may not deduct the input tax because there is no contractual relationship between the company and the service provider.

6. Article 49(1), Input Tax Deduction, VAT Implementing Regulations.

7. Article 48, Unified VAT Agreement for the GCC States; Articles 49-50, VAT Implementing Regulations

8. Article 51, Proportional Deduction of Input Tax, VAT Implementing Regulations



Details	Deductibility
VAT incurred on expenses related exclusively and directly to taxable supplies	Fully Deductible
VAT incurred on expenses related exclusively and directly to exempt supplies	Non-Deductible
VAT on expenses that cannot be directly attributed to taxable or exempt supplies	Proportional Deduction according to the mechanism of classification

7.1 Proportional VAT Deduction

- Expenses incurred by an insurance company must be accurately apportioned between those used for making taxable supplies and those used for exempt supplies for VAT purposes.
- The apportionment is calculated according to the default method based on the value of supplies during the year, using the following formula⁹.

Value of Taxable Supplies made by the Taxable Person during the past calendar year

**Total value of Taxable and Exempt Supplies made by the Taxable Person
during the past calendar year**

- At the end of the full calendar year, an Insurance Company calculating under the default method must compare the values used in the above transaction during that year (based on the previous year or current year forecasts) with the actual values of supplies made in that calendar year.
- The Taxable Person must then adjust the deducted VAT in the final tax return for the calendar year to reflect the correct proportional deduction based on actual supplies for the entire year.

9. Article 51(3), Proportional Deduction of Input Tax, VAT Implementing Regulations

**Example:**

An insurance company contracts with a broker to sell general insurance to a company's employees in the Kingdom for a 10% brokerage commission. The broker charges 15% VAT on the commission:

Commission	SAR 10,000
VAT at 15%	SAR 1,500
Total	SAR 11,500

The Insurance Company pays SAR 11,500 to the broker and deducts the tax amount of SAR 1,500, as it is an expense related to a taxable supply.

If the insurance company contracts with the broker to sell life insurance to the company's employees with a 10% commission, the commission will still be subject to 15% VAT. However, it will not be possible to deduct the VAT as the expense relates to an exempt supply.

Example:

The taxable supplies of an insurance company during the calendar year amount to SAR 1,000,000, and the total exempt supplies amount to SAR 500,000. The company purchased office furniture for SAR 100,000 and incurred VAT of SAR 15,000. The furniture is used for both taxable and exempt supplies. The company incurs 15% VAT on the purchase:

Furniture	SAR 100,000
VAT (15%)	SAR 15,000
Total	SAR 115,000

The proportional deduction rate for the insurance company is $1,000,000 / (1,000,000 + 500,000) = 67\%$. Accordingly, the deductible VAT is SAR 10,000 ($67\% * SAR 15,000$), while the non-deductible VAT is SAR 5,000.



8. 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 Regulations¹⁰.

Non-Field Violations

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

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



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

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

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

1. The penalty shall be increased by 10% where the error in the return is associated with a case of tax evasion for which a decision has been made 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 on the Classification of General VAT Violations.

9. Request for an Interpretive Decision (Tax Ruling)

If you are uncertain about how to apply the tax to a specific activity or transaction that you are conducting or intend to conduct, after reviewing the relevant statutory provisions and the applicable guideline, you may submit a request to the Authority to obtain an interpretive decision in accordance with the provisions outlined in the Guideline for Tax Ruling Requests.



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