VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline for

for the Electricity and Public Utilities Sector under VAT Provisions

Second Version | 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

Amendment Log

#	Version Number	Date of Amendment	Section/Item	Type of Amendment	Description of Amendment	Notes
1	2	May 2026	7 9	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	-

The Zakat, Tax and Customs Authority (ZATCA) has issued this Guideline to explain certain treatments related to the application of the regulatory provisions in force as at the date of its issuance. The content of this Guideline does not constitute an amendment to any of the provisions of the applicable rules and regulations in the Kingdom.

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 in the Guideline is amended in relation to an unchanged statutory provision, the updated explanatory treatment shall apply to transactions carried out after the publication date of the updated version of the Guideline on ZATCA's official website.

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1. Introduction

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

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

1.2 About 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 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 designed for all natural and legal Persons who carry on an economic (business) activity and are subject to VAT. This important Guideline provides further clarification on tax liabilities and implications relating to electricity and other public utilities, such as water, heating, cooling, and air conditioning.

2. Definitions of Key Terms

The Agreement: The Unified Value Added Tax (VAT) Agreement for the Cooperation Council for the Arab States of the Gulf. [1]

The Law: The Value Added Tax Law[2].

The Implementing Regulations: implementing regulations related to the Law[3].

Tax: Value Added Tax imposed on the import and supply of Goods and Services at each stage of production and distribution, including Deemed Supplies[4].

Goods: In terms of VAT purposes, Goods are defined as:
"All types of material property (material assets), including water and all forms of power, including electricity, gas, lighting, heating, cooling, and air conditioning."[5]
Although the term "Goods" for the purpose of this guideline refers to tangible assets, the definition clearly indicates that electricity and similar utilities are also considered Goods for applying VAT provisions.

Supply of Electricity: "Electricity" is not specifically defined for VAT purposes; however, for this Guideline, it is interpreted as a type of supply that is subject to special Place of Supply rules regulating VAT application.[6]
For ZATCA, the term "electricity" has the same common meaning used in everyday life, that is, electrical power generated from a source and transmitted to be use for electrical equipment and devices. It should also be noted that all activities relating to electricity in the KSA are regulated under the Electricity Law[7] and its implementing regulations.
The Supply of Electricity means any transmission or any other form of supply of electricity or the right to use electricity and is treated as a supply of goods.
The term "Supply" is frequently used in the utilities sector to denote the provision of such services as water and electricity to consumers. This term is often used with the same meaning for VAT purposes; however, in certain instances within the utilities sector, it may be used in a manner that differs from its definition for VAT purposes.

1. Article (1), Value Added Tax Law
2. Article (1), Value Added Tax Law
3. Article (1), Value Added Tax Law
4. Article (1), Unified Value Added Tax Agreement
5. Article 1, Unified VAT Agreement
6. Article 14, Unified VAT Agreement
7. Council of Ministers' Decision No. 262 dated 14th Jumada Al-Awwal 1442H/ 29th December 2020G

Supply of gas, water, and oil through a pipeline distribution system is not defined for VAT purposes but refers to a type of supply with special VAT Place of Supply rules.[8]

Pipeline Distribution System is not defined for VAT purposes. However, ZATCA has made it clear that it means an integrated network of pipelines or similar infrastructure-such as transmission networks, distribution networks, and installations associated with such networks-through which gas, water, and oil are distributed to producers, distributors, and consumers of those services.
With respect to electricity, the term Electricity Distribution System is not defined for VAT purposes; yet it is defined in the Implementing Regulations of the KSA Electricity Law as follows: "Subject to the specific provisions of the relevant Distribution Licence, a system consisting of cables, overhead lines, and electrical apparatus having such design voltage(s) as may be specified in the relevant Distribution Licence used for the distribution of electricity from connection points within the Transmission System or within Generating Stations to point of delivery to Consumers or other Distribution Systems and includes any electrical installations and meters owned or operated in connection with the distribution of electricity, but shall not include any part of a Transmission System."[9]

Taxable Trader is defined for VAT purposes as "a taxable Person in any Member State whose principal activity is the distribution of gas, oil, water, or electricity."[10]

A Person's Place of Residence: For VAT purposes, it is defined as follows:
The place where a Person has its place of business or any other form of fixed establishment. [11]
This definition also includes certain additional details that apply in specific circumstances:

- "In the case of a natural Person who does not have a place of business or fixed establishment, the usual place of residence shall be considered the Place of Residence."
- "If a Person has a place of residence in more than one State, the Place of Residence shall be the place most closely connected with the supply."[12]

Place of Business: For VAT purposes, it is defined as "the place where a business is legally established or the place of actual management, where key decisions relating to the conduct of the business are taken, if different from the place of establishment." [13]

8. Article 14, Unified VAT Agreement
9. Article 1, Implementing Regulations of the Electricity Law
10. Article 1, Unified VAT Agreement
11. Article 1, Unified VAT Agreement
12. Article 1, Unified VAT Agreement
13. Article 1 of the Unified Agreement for Value Added Tax

Fixed Establishment: This term is defined for VAT purposes as "any fixed place of business, other than the Place of Business, in which the business is carried out and which is characterized by the permanent presence of human and technical resources enabling the Person to make or receive supplies of goods or services."[14]

Place of Actual Consumption is the place where the goods are actually consumed. In the context of the supply of electricity, gas, oil, water, and other utilities through a pipeline distribution system, ZATCA perceives Place of Actual Consumption as the registered location or point of connection where the goods are delivered.

Supply of Services: Any supply transaction that doesn't constitute supply of goods shall be regarded as a supply of services.[15]

Import of Goods: For VAT purposes, it is defined as "the entry of Goods from outside the territory of the GCC States into any Member State in accordance with the provisions of the Common Customs Law."[16] If a taxable Person in the Kingdom receives goods from another Member State during the transitional period, they shall be deemed to have imported such goods into the KSA.[17]

Export of Goods: This term is defined for VAT purposes as "the supply of goods from any Member State to outside the territory of the GCC States in accordance with the provisions of the Common Customs Law."[18]
As the export of goods must involve a supply of those goods, the transfer of goods owned by a Person to outside the GCC States shall not be considered a supply of goods from VAT perspective. During the transitional period, supplies of goods involving the transfer of goods from the KSA to another Member State shall be treated as an export of goods for VAT purposes. [19]
It should be noted that the concept of export of goods is different from a customer's exporting of electricity from their place of business to an electricity distribution system.

Licensee: is defined in the Implementing Regulations of the Electricity Law in the KSA as any Person holding a valid license or exemption. [20]
This may include the generation of electrical energy, cogeneration, transmission of electrical energy, distribution, and trading thereof.

14. Article 1, Unified VAT Agreement
15. Article 7, Unified VAT Agreement
16. Article 1, Unified VAT Agreement
17. Article 79(7), Transitional provisions, Implementing Regulations
18. Article 1, Unified VAT Agreement
19. Article 79(7), Transitional provisions, Implementing Regulations
20. Article 1, Electricity Law

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 and Legal Persons who operate an economic activity are required to register for VAT purposes if the registration requirements are met. Such Persons must collect the VAT applicable to their activities and remit it to ZATCA within their periodic returns.

3.2 Mandatory Registration

Registration is mandatory for all Persons whose annual revenues exceed the prescribed Registration threshold, i.e., if the Person's taxable supplies value during the previous or subsequent 12 months exceeds SAR 375,000, the "Mandatory Registration Threshold". Then, this Person must register for VAT[21] subject to the transitional provisions stipulated in the Implementing Regulations of the Law regarding the Mandatory Registration threshold during the transitional period.

Taxable Supplies for the purposes of calculating the Mandatory Registration Threshold do not include the following:

- Exempt Supplies, such as exempt financial services or residential rent qualified for tax exemption.
- Supplies that fall outside the scope of VAT in any Member State of the Gulf Cooperation Council (GCC).
- Proceeds from the sale of capital assets: Capital assets are defined as tangible and intangible assets forming part of the business assets and allocated for long-term use as a tool of business or as a means of investment. [22]

In certain cases, Mandatory Registration provisions apply:

- Non-Residents in the KSA 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 [23].

21. Article 3, Implementing Regulations.
22. Article 1, Unified Agreement for VAT.
23. Article 5 (1), Implementing Regulations

3.3 Voluntary Registration

A resident Person in the Kingdom whose taxable supplies or taxable expenses exceed SAR 187,500, the Voluntary Registration Threshold, within the past 12 months may voluntarily register for VAT purposes [24].

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.

Example (1):

Best Solar Company decided to enter the renewable energy production development market and obtained a license for the generation of electrical energy. It imported a number of photovoltaic (PV) cells for installation at various sites across KSA. The company also concluded power purchase agreements with distribution companies in the Kingdom to sell the generated energy, for which it will charge VAT.

Installation of the first batch of PV cells is due to be operational and ready to make taxable supplies by April 2020. Best Solar Company incurred costs amounting to SAR 500,000 during 2019 in respect of preparatory expenses, such as obtaining licenses, design costs, importation, and installation costs. As the taxable expenses exceed SAR 187,500, the company may register with ZATCA for VAT purposes in 2019. It is also entitled to deduct the VAT incurred on costs of future taxable supplies resulting from the generation of electricity.

24. Article 7, Implementing Regulations

4. Place of Supply

Place of Supply is one of the most important concepts for determining how VAT is applied. It identifies the country in which the supply takes place for VAT purposes, as well as the VAT rules and obligations applicable to such country. The Place of Supply is determined in accordance with relevant rules set out in the Unified Agreement for VAT.

Generally, the Place of Supply of goods is determined based on the physical location of those goods at on a specific time[25] (the date on which the goods are placed at the disposal of the customer).

As it is practically difficult to determine the physical location of a specific quantity of electricity, gas, oil, or water supplied through pipelines, different rules apply to determine the Place of Supply in such cases.

Supplies taking place between the Kingdom and any GCC Member State that has not yet implemented VAT shall be treated as supplies with a State outside the GCC territory.

Supplies occurring between the Kingdom and GCC Member States prior to the introduction of the e-services system shall be treated as follows:

- Upon receipt of electricity and water in the Kingdom from another Member State, this shall be considered an import into the Kingdom; therefore, the provisions governing import shall apply.
- Upon the transmission of electricity and water from the Kingdom to another Member State, this shall be considered an export from the Kingdom; therefore, the provisions governing export shall apply.

4.1 Place of Supply: Supplying Electricity, Gas, Oil, or Water Through Distribution System-Customer is a Taxable Dealer

The Place of Supply of electricity, gas, oil, and water through a pipeline distribution system from a taxable Person established in a Member State to a taxable trader established in another Member State shall be the place where the taxable trader is established.[26]

VAT at the rate of 15% shall be imposed on all supplies of water, electricity, oil, gas, and any form of energy taking place in KSA for VAT purposes, including supplies made to a taxable trader. [27]

Where a supply is made by a non-resident Person to a taxable trader in the KSA, the taxable trader must account for the VAT due on the supply under the reverse charge mechanism. This

25. Article 10, Unified Agreement for VAT.
26. Article 14 (1), Unified Agreement for VAT
27. Article 2, Unified Agreement for VAT

is done by including the VAT in Field 9 of the VAT return (titled "Imports subject to VAT under the reverse charge mechanism"), but is used for all supplies where the resident customer self-accounts for VAT upon receiving a supply from a non-resident Person).

Example (2):

RAK Company generates electricity at its facilities in the United Arab Emirates. It agreed on a spot power transaction for the sale of 20 megawatts of electricity against SAR 10,000 to Al Fahad Energy Trading Company, a Saudi company licensed to trade in electricity within the Gulf Cooperation Council (GCC) States. Al Fahad Company intends to sell this electricity to a distribution company in the United Arab Emirates, noting that the electricity was not physically transmitted across the border into the KSA.

In this case, since the recipient is a taxable trader, the place of supply is considered to be in the KSA, even though the electricity physically remained in the United Arab Emirates. Accordingly, RAK Company does not charge VAT on its invoice. As for Al Fahad Company, it must account for the VAT due (at 15% of the sale price) under the reverse charge mechanism by declaring the value of the purchase in Field 9 of its VAT return.

4.2 Place of Supply: Supplying Electricity, Gas, Oil, or Water Through Distribution System - Customer is NOT a Taxable Dealer

This could include a supply made to a taxable Person, such as a factory seeking to consume energy or water as part of its economic activities, or to a non-taxable Person, such as individuals under a domestic supply contract.

In all cases where electricity, gas, oil, or water is supplied through a pipeline distribution system to a Person who is not a taxable trader, the place of supply shall be the place of actual consumption.[28]

In practice, the place of supply is determined by the place where the goods are delivered.

As is the case for supplies made to a taxable trader, VAT at the rate of 15% shall be imposed on all supplies of water, electricity, oil, gas, and any other form of energy provided in the KSA for VAT purposes (other than those supplies made in Bonded (Customs Duty Suspension) Zones or Special Zones, as described in Paragraph 4.3). [29]

28. Article 14 (2), Unified Agreement for VAT
29. Article 2, Unified Agreement for VAT

Example (3):

Electricity Supplies Company is a company established in KSA and licensed to generate, transmit, and distribute electricity. It supplies energy to various taxable and non-taxable Persons (such as factories, stations, and residential homes) for consumption across the Kingdom.

With respect to supplies made through the company's distribution division, the practical approach is to use the address of the supply point equipped with meters, from which delivery is made through the electricity distribution system, to determine the locations where the electricity is consumed. VAT at the rate of 15% is applied to the supply for all customers whose delivery point from the electricity distribution system is located in KSA.

4.3 Supply to Bonded (Duty-Suspension) Zones or Special Zones

A business located in a place controlled by the Zakat, Tax and Customs Authority (ZATCA) that is covered by a duty-suspension arrangement, such as a free zone or duty-free shop, shall be subject to special rules. This includes "any of the special zones with duty-suspension status that are subject to VAT at the rate of 0%, in accordance with the provisions of the Common Customs Law.

All supplies of goods (including electricity, water, and other public utilities) made to a delivery point forming part of the electricity distribution system and placed under customs duty suspension shall be zero-rated for VAT purposes [30]

It should be noted that supplies of electricity, water, gas, lighting, heating, cooling, air conditioning, and all forms of energy shall not be treated as zero-rated supplies if they are not subject to duty-suspension procedures.[31]

Example (4):

Electricity Supplies Company entered into a contract to supply electricity to King Logistics Company, which operates from an office building in Riyadh and has a separate distribution center located within a free zone under a customs suspension arrangement.

VAT at the rate of 15% is imposed on the supply of energy to the metered supply point located in the office building. With respect to the supply of energy to the metered supply point located within the free zone under a duty suspension, it shall be subject to VAT at the rate of 0%.

Accordingly, Electricity Supplies Company issues a tax invoice to King Logistics Company specifying separately the supplies made to the different places of supply and applying the appropriate VAT rate to each location.

30. Article 34 (1), Unified Agreement for VAT
31. Paragraph 8 of Article 32 bis, Implementing Regulations

4.4 Place of Supply: Supplying Electricity, Gas, Oil or Water Outside Distribution System

All supplies of electricity, gas, oil, or water that are not made through a pipeline distribution system (for example, supplies of products transported in bottles, cylinders, tankers, or other containers, or where the product is placed directly into a vehicle or machine) shall be subject to the general rules for identifying the Place of Supply of such goods.

In such cases, the Place of Supply shall be determined as follows:

- The Place of Supply of Goods supplied without transportation or dispatch (for example, where the customer collects the goods from the supplier's place of business) shall be the place where the goods are located on the date they are placed at the disposal of the customer.(32)
- The Place of Supply of Goods supplied with transportation or dispatch by the supplier or on behalf of the customer shall be the place where the goods are located at the time when the transportation or dispatch begins.(33)

A 15% VAT is chargeable on all supplies of electricity, oil, gas, and water made outside the network or pipeline distribution system in the KSA, whether the consumer is a taxable Person or a non-taxable Person.

Example (5):

Al Sham'a Gas Company produced 3,500,000 standard cubic meters of methane gas. The Company sold 3,000,000 standard cubic meters to the main gas network in the KSA, and additionally transported 500,000 standard cubic meters by truck to a desalination plant not connected to the network. Accordingly, the Place of Supply to the desalination plant shall be the location where transportation by truck commenced, namely the production facility of Al Sham'a Gas Company in the KSA.

Example (6):

A water supply company owns a tank in a rural area containing 250,000 liters of water. In April, the company agreed to sell the water to a local farmer, while retaining the water in the tank (so that the farmer may collect it at his discretion during the following months). As there is no transportation of the goods, the Place of Supply shall be the location where the goods are situated on the date they are placed at the disposal of the customer (i.e., the location of the water tank), regardless of the status of the customer.

Any supplies involving the import of goods from outside the GCC States, or the export of goods

32. Article 10, Unified Agreement for VAT
33. Article 11, Unified Agreement for VAT

to a location outside the GCC States, shall be subject to the rules governing import and export. For further details, please see the Import and Export Guideline. Moreover, Section 5 of this Guideline discusses the rules applicable to import and export through pipelines or the electricity distribution system.

For the sake of completeness, it should be noted that special rules for determining the Place of Supply may apply in respect of supplies of goods transported to another Member State (outside the pipeline distribution system), following the introduction of the e-services system and the full implementation of VAT rules concerning intra-GCC trade. Further details will be provided upon the implementation of the e-services system.

4.5 Transportation of Electricity, Gas, Oil or Water

The transmission of electricity is a licensed activity in the KSA, whereby electricity is transmitted from generation facilities to the electricity distribution system through the transmission network. The transmission of electricity is treated as a transport of goods for VAT purposes.

Similarly, where consideration is paid to a Person for the transport of gas, oil, or water from one place to another, whether through a pipeline distribution system or by shipment using transport vehicles, such consideration relates to the transport of those goods.

The Place of Supply of transport services for goods shall be the place where the transport commences. [34] This rule applies regardless of the residence status or VAT registration status of the supplier or the customer.

In the case of transport services that commence in a place within KSA and have a destination outside the territory of the Kingdom (including another Member State, a third country, or any destination outside KSA territory), such services shall be subject to VAT at the rate of 0%. [35]

Transport Commences	Transport Ends (Destination)	KSA VAT Treatment
In KSA	In KSA	15% VAT rate is applied - Domestic transport
In KSA	Outside KSA: • Another GCC State • Outside of GCC Territory	0% VAT rate is applied - Intra-GCC or international transport
Outside KSA	In KSA	Not subject to VAT
Outside KSA	Outside KSA	Not subject to VAT

34. Article 18, Unified Agreement for VAT
35. Article 32, Unified Agreement for VAT

Transactions with a place of supply outside the KSA will not be subject to VAT in the Kingdom. However, the country where the place of supply takes place may seek to impose VAT or a similar transactional tax.

For further general information on the application of VAT to transport and transport-related services, you may refer to the Guideline on Transport Sector.

4.6 Other Services

Suppliers of public utility services and other commercial establishments in this sector may provide additional relevant services to customers under a public service contract. Examples of such services may include:

- Wastewater disposal services;
- Network connection, reconnection, or disconnection;
- Installation of equipment such as meters, and
- Repair and maintenance of a customer's equipment.

If a taxable person charges consideration for such services, it is necessary to determine whether:

The services provided are necessary and not separate from the principal supply of goods, and therefore, such a charge constitutes additional consideration for the single supply of electricity/ public utility services; or

The services provided are separate from and additional to the supply of electricity, water, or gas.

For most domestic supply contracts, this distinction does not affect the overall VAT treatment, as the place of supply of both the goods and the services would take place in KSA. Accordingly, the supply is subject to a 15% VAT rate.

4.6.1 Real Estate-Related Services

Real Estate-related services are those which affect or are related to a specific area of real estate or to a specific site of immovable property.(36) In these cases, VAT applies in the country where the real estate is situated, regardless of the residence of the supplier or customer.

For ZATCA, most additional and separate services provided under a public utility services contract for specific premises in the KSA are treated as real estate-related services for the purpose of determining the place of supply.

Any services relating to the generation, transmission or distribution of similar assets will also be considered real estate-related services.

36. Article 23 (2), Implementing Regulations

Example (7):

Al-Harbi LLC is a KSA resident contractor that carries out work on the installation of electricity lines for a mall in Dammam in accordance with the electrical drawings provided by the engineer. Al-Harbi carries out the electrical installation work as a subcontractor to a Kuwaiti company, the lead contractor for the construction project. The installation Services are related to real estate located in the KSA. Therefore, Al-Harbi's Place of Supply is in KSA for VAT purposes, regardless of the customer's residence.

5. Imports and Exports Through Distribution Systems

5.1 Background

Transport of goods such as electricity and gas between countries through international distribution systems is growing with a view to facilitating trade and maintaining security of supply. Examples of distribution systems within the GCC states include gas pipelines and cross-border electricity interconnections.

With respect to electricity, the GCC Interconnection Authority (GCCIA) has been established to link the national power systems of the Member States and to develop an efficient energy market across the GCC States.

Interconnection facilities allow electricity to be transmitted from one State to another to provide support in cases of power loss or interruption. Transmission through such interconnections may also be used in the future to facilitate trading within a broader energy market across the GCC states and to any neighboring states connected to the network.

This Section explains the VAT implications of the physical transport of goods to or from the KSA through gas pipelines or via electrical interconnections with another country. For further information regarding imports or exports outside the distribution system (for example, by vessel), please check the Import and Export Guideline.

5.2 Import of Goods into KSA

VAT at the rate of 15% shall be imposed on the import of physical goods as a separate charge from any supply of those goods, including, for example, electricity, water, oil, or gas. Accordingly, VAT is chargeable on the import of goods separately from, and in addition to, any VAT imposed on the supply of those same goods:

- For goods imported into the KSA, the place of import shall be the KSA.
- The Place of Supply shall be determined in accordance with the relevant rules set out in Section 4 (depending on whether the supply is made to a taxable trader or for the purpose of consumption).

VAT shall be levied on the importer of goods, being the licensed Person who submits the customs declaration to the ZATCA (in addition to any further regulatory requirements for receiving electricity or gas through electrical interconnections or via pipelines, as applicable). VAT shall be imposed irrespective of whether the importer is a taxable Person or a non-taxable Person. The actual receipt of electricity, gas, or other goods from a GCC State into the KSA shall also be regarded as an import subject to VAT during the applicable transitional period and prior to the introduction of the electronic services system.[37] This taxation shall be applied based on the statistical import declaration submitted to ZATCA.

Import VAT shall apply only to the physical transport of goods into the KSA. Accordingly, the mere purchase of electricity, gas, oil, or water located within a distribution system outside the Kingdom does not constitute an import for VAT purposes (though the Place of Supply of the goods may be in the KSA).

Referring back to Example (2): RAK Company generates electricity at its facilities in the United Arab Emirates and enters into a spot transaction to sell 20 megawatts of electricity for SAR 10,000 to Al Fahad Energy Trading Company, a Saudi company licensed to trade electricity within the GCC States. Al Fahad Company intends to sell this electricity to a distribution company in the United Arab Emirates, noting that the electricity has not been physically transferred across the border into the KSA. Accordingly, there is no import of the goods (electricity) into the Kingdom. However, Al Fahad Company must account for VAT on the supply, deemed to take place in the KSA, under the reverse charge mechanism.

37. Article 79 (7), Implementing Regulations

Example (8):

An industrial gas supplier does not have sufficient reserves to supply one of its largest customers in the manufacturing sector. The industrial gas supplier purchased gas from a supplier in Kuwait and imported it through newly constructed gas pipelines to meet the customer's requirements. Since the electronic services system has not yet been implemented, the intra-GCC supplies remain subject to the transitional VAT provisions.

The supplier submitted a statistical Customs declaration to ZATCA for the import of the goods and paid 15% VAT on the import into KSA.

5.3 Export of Goods from KSA

The export of goods constitutes a supply thereof involving the physical transport of such goods to a place outside the territory of the GCC States because of that supply. The export of goods from the KSA shall be subject to VAT in the Kingdom at the rate of 0%. (38)

During the transitional period and prior to the introduction of the e-services system, a supply involving the transport of goods from KSA territory to other Member States shall be treated as an export subject to VAT at the rate of 0%. (39)

In general, a typical export of goods involves the following:

- Completion of the export declaration by the exporter as required in accordance with the Common Customs Law
- Transport of the goods outside the territory of the GCC States.

The exporter must retain evidence that the goods have been transported from the territory of the GCC States within 90 days from the date the supply takes place. (40)

In the case of the supply of gas through pipelines or electricity through electrical interconnections, the supplier must ensure that the pipeline or interconnection operator provides evidence of the transport of the goods outside the Kingdom. There may also be additional regulatory requirements associated with exports through pipelines or electrical interconnections.

38. Article 34, Unified Agreement for VAT
39. Article 79 (7), Implementing Regulations
40. Article 32 (1), Implementing Regulations

6. VAT for Domestic Electricity Sector

6.1 An Overview of KSA Electricity Sector

Electricity sector in KSA is governed by laws and regulations, which define "Electricity Services" as the activities carried out, or intended to be carried out, by a Person in the field of electricity, including electricity generation and cogeneration from any energy source, transmission, distribution, trading, retail sale,; as well as a principal buyer's business and district cooling.[41] While Electricity Law puts it as "Electricity Services," the supply of electricity is treated as a supply of goods for VAT purposes.

The licensed activities are described in the Implementing Regulations of the Electricity Law as follows:

Generation	1. Establishing a generation station or expanding its capacity for the purposes of generating electricity therein. 2. Generating electricity in a station.
Cogeneration (The simultaneous production of electricity and desalinated water, or steam used in other production processes, or both.)	1. Establishing a cogeneration plant or expanding its capacity for the purposes of cogeneration therein. 2. Cogeneration activities in a plant.
Transmission	1. Establishing any part of a transmission system or expanding it. 2. Transmitting electrical energy on a transmission system.
Distribution	1. Establishing any part of a distribution system or expanding it. 2. Distributing electricity via a distribution system for the purpose of providing supply to any consumer, including the sale of electricity to consumers within the area authorized under the distribution license.
Trading The sale, purchase, import, or export of a product or service within an electricity activity	Purchasing electricity on a wholesale basis from a licensee to sell it to another licensee or to a large consumer.
Retail	Selling electricity on a retail basis to consumers.
Principal Buyer	Principal Buyer activity
District cooling	District cooling Activity

41. Article 1, Implementing Regulations of Electricity Law

6.2 VAT Treatment of Preparatory Work and Generation Sector

6.2.1. Costs Incurred Prior to Production

Preparatory activities undertaken prior to production or any other activity, which are intended to be carried out on a continuous and regular basis, constitute an economic activity in terms of VAT purposes. An establishment incorporated in the KSA whose value of taxable supplies or expenses for 12 months exceeds SAR 187,500 may register voluntarily for VAT, Provided that the intended economic activity consists of taxable supplies of electricity or transmission. VAT imposed on expenses must be deducted as input tax. A subsequent supply is not required to deduct input tax as a credit, as the deduction of input tax depends on the intended use at the time of purchase.

Example (9):

Red Sea Company established a company to construct a small generation station near a large industrial facility. The company registered for VAT and deducted input tax on construction expenses. Prior to the commencement of production at the small generation station, the industrial facility was closed, meaning that the generation station will not become commercially operational.

Although Red Sea Company correctly registered and duly deducted input tax based on the intended use at the time of purchase, it is not required to make an adjustment that reflects that the station did not become operational.

6.2.2 Construction/Contracting Activities

All construction services performed in the KSA, or any contract for the construction of a generation station in the Kingdom, including the activities of subcontractors in any such project, constitute a supply of services subject to VAT at the rate of 15%.

This includes contracts prepared for the design and construction of a station, such as Engineering, Procurement and Construction (EPC) contracts and Lump Sum Turnkey (LSTK) contracts.

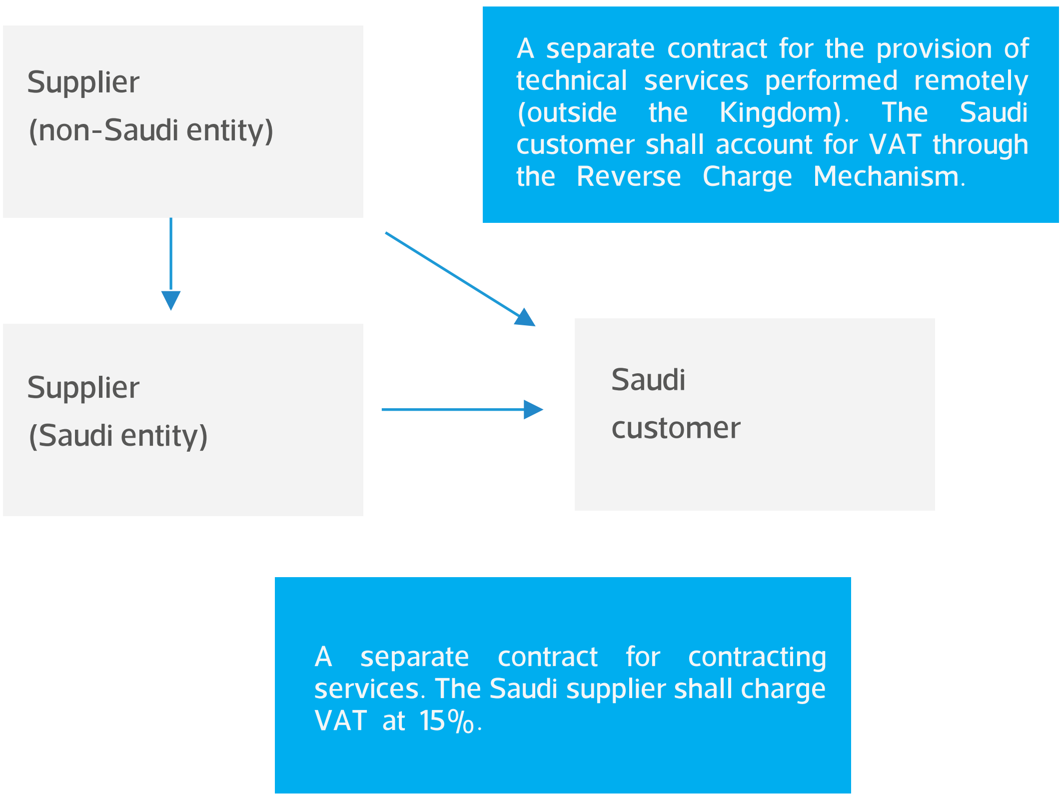
While these contracts include the provision of tangible materials and equipment, they are generally regarded, in most cases, as a single contract for a single supply of services. The place of supply of these services is the country where the station is located.

Engineering, Procurement and Construction (EPC) or Lump Sum Turnkey (LSTK) contracts are typically concluded by a local supplier or through the Saudi branch or subsidiary of a multinational enterprise. In such cases, the resident supplier must charge VAT on the supply.

In certain cases, a multinational supplier may agree with the client to split the contract and provide specific services "remotely" or "from outside the Kingdom" through another establishment within the corporate group. These services are usually specialized ones that are performed remotely by employees or contractors of a non-resident establishment, and may be provided without physical presence in the KSA (such as off-site design and engineering services and procurement services).

In such cases, where the recipient of the services concludes a separate contract with a non-resident supplier for the provision of specific services, VAT may be applied based on the place of residence of each different supplier in each case. Services associated with a specific station are linked to real estate in the KSA and are subject to VAT at 15%, regardless of the place of residence of the establishment acting as supplier. However, the taxable customer shall be responsible for self-accounting for VAT under the Reverse Charge Mechanism upon receipt of services supplied directly by the non-resident person.

Diagram: Two distinct suppliers from same corporate group



Example (10):

Red Sea Energy Company concluded an agreement with Ichigawa Saudi Arabia for the construction of a generation station in the KSA. It also entered into a separate contract with Ichigawa Japan for the provision of remote services for the facility. Both supplies constitute services linked to the facility located in the KSA.

Below is an invoice issued by Ichigawa Saudi Arabia for the first payment of the contract.

Ichigawa Saudi Arabia Limited **TIN: 300007417430000**	**Date: 30th September 2020**
First payment under EPC contract	SAR 600,000
VAT at 15%	SAR 90,000
Total amount due	SAR 690,000

Ichigawa Japan issues a separate invoice for the remote services provided directly to Red Sea Energy Company in the KSA under its contract, for SAR 120,000. This invoice does not include KSA VAT; however, Red Sea Energy Company shall account for VAT of SAR 18,000 under the Reverse Charge Mechanism in its tax return.

A supplier with a branch in the KSA and a foreign head office cannot split its supplies in this manner for VAT purposes. In other words, if a supplier has fixed establishments in the KSA and in another country, they will be regarded as resident for this supply in the country that is most closely connected with the supply.[42] For the provision of Engineering, Procurement and Construction services or a similar contract, it is very likely that the supplier's Saudi fixed establishment is the establishment most closely connected with the supply, and will be required to issue a tax invoice in its capacity as the supplier.

42. Article 21 (4), the Implementing Regulations

6.2.3. VAT Treatment of Generated Electricity Supply

The supply of electricity generated from a station constitutes a supply of goods subject to VAT at 15% rate, provided that the supply occurs within the KSA.

The supply of a certain quantity of electricity on a set date (such as trading a specific quantity of spot power that is destined for a defined delivery point, or trading energy consisting of electricity due to be delivered in hourly periods on the same date) constitutes a separate supply of goods.

The Supply of goods occurs on the date the electricity is provided, unless VAT has already become due on an earlier date (via the supplier's issuing of a tax invoice, or receiving payment in respect of that supply). [43]

A long-term agreement for the provision of generated electricity over a defined period (such as a power purchase agreement under which all energy is delivered to a "contractor") may be treated as a "continuous" supply of goods.

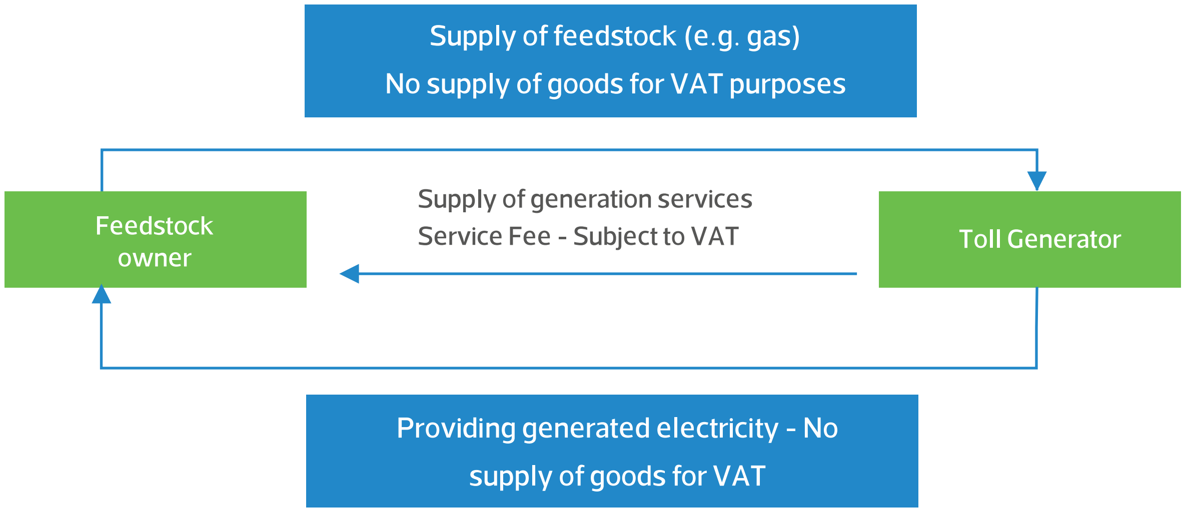
In the case of a "continuous" supply of electricity, VAT becomes due based on each installment, payment, according to the following rules:

- In cases where goods or services are supplied, and the contract or agreement between the supplier and the customer stipulates payment in defined installments on specified dates, resulting in successive invoicing, VAT is due on the installment due date, the actual payment date, or the invoice issuance date, whichever comes first, [44] and at least once in every consecutive 12 month period.
- In all other cases where supplies of goods or services are made continuously, each supply is treated as a separate supply, and VAT becomes due on the invoice issuance date or the payment date, whichever is earlier, [45] in proportion with the value of the invoice or payment.

43. Article 23, Unified Agreement for VAT
44. Article 20 (1), the Implementing Regulations
45. Article 20 (2), the Implementing Regulations

6.2.4. Toll generation

Toll Generation, or Tolling, is a process whereby a generation station is supplied with feedstock (for example, gas) by the customer, and the company charges a fee for converting that feedstock into electricity, which is then supplied to the same customer.



In such cases, generation activity constitutes a supply of services to the customer, so the fees charged are subject to VAT at 15%, in the same manner as other services or transactions carried out on goods in the KSA. There is no supply of the underlying goods (feedstock or electricity) in these cases for VAT purposes.

6.3 VAT Treatment of Small Power Generation Facilities

Small generation facilities are stations with a capacity of less than 30 megawatts and are subject to different regulatory requirements.[46] They are often cogeneration stations, renewable facilities, or other on-site energy production facilities, which may be directly connected to a specific facility (rather than supplying electricity to the electricity distribution system).

Cogeneration is defined as the simultaneous production of electricity and by-products (such as steam and heat, or the use of such products in the desalination process). Renewable projects rely more on the use of natural energy sources to generate power, such as wind energy, solar energy, and waste-to-energy conversion technology. These technologies are important for diversifying generation sources and increasing the efficiency of electricity production.

Electricity consumers who own renewable facilities or other small power stations generally consume the energy produced; however, in some cases they may be able to supply excess electrical energy to the electricity distribution system.

46. Article 6, Implementing Regulations of the Electricity Law

6.3.1. Tax Treatment of On-Site Generation

With respect to other generation methods, VAT is chargeable on the supply of electricity from a generation station or cogeneration. If a generation facility charges a fee to a third party for a by-product of cogeneration, this constitutes a taxable supply of that by-product.

The consumption of generated energy by a taxable person who carried out the generation, or the consumption of by-products from a cogeneration facility by the owner of that station, does not constitute a supply for VAT purposes and consequently does not give rise to tax liabilities.

If the generation station is operated entirely for the owner's consumption, the eligibility to deduct VAT incurred on generation costs shall be determined on the basis of whether the use of electricity is for taxable purposes. For further information on the deduction of input tax, please refer to Section 8 in this Guideline.

Example (11):

A factory in the Eastern Province established a small gas-fired generation station adjacent to its premises. This station is directly connected to the factory and supplies energy for the factory's consumption. The factory manufactures products that are sold as taxable supplies in the KSA.

The factory does not make supplies when it consumes the energy generated from its own station. Therefore, it may deduct the VAT incurred on the construction and operating costs of the generation station, as these costs form part of the overall economic activity that leads to making taxable supplies.

6.3.2. Supply of Electricity by Consumers to Electricity Distribution Systems

Electricity consumers who have surplus electricity from on-site generation facilities may, subject to the regulatory considerations set by the competent authority, supply this energy from their premises to the electricity distribution system to be used by other consumers (this is referred to as an export of energy within the sector). This term differs from "export of goods" as defined in VAT context (which relates to the transfer of goods to a place outside the KSA).

The tax implications in this case are as follows:

- If the consumer receives monetary consideration for the "exported" electricity, this constitutes consideration for the supply made by the consumer. If the consumer is a taxable person, they must charge VAT.
- If the consumer is granted a reduction or offset to the bill of electricity supplied to them by the electricity distribution system, this constitutes a barter transaction. In this case, both the supplier and the consumer are regarded as making a supply of goods. If the consumer is a taxable person, they must charge VAT on their supply of goods.

Example (12):

Ahmad installed solar panels at his residence. The electricity provider agrees to grant offset for any surplus renewable energy at a rate of SAR 0.27 per kilowatt-hour, being a rate determined by the competent authority.

During October 2021, Ahmad incurs supply charges amounting to SAR 130 (excluding VAT) for connection fees and energy consumed from the electricity distribution system. These supplies are subject in full to VAT, and the supplier must report an output VAT of SAR 650. Ahmad also generates 160 kilowatt-hours of excess solar energy.

However, Ahmad is not a taxable person, as the value of his solar energy supplies does not exceed the mandatory registration threshold. Accordingly, he is not required to charge VAT on the excess energy supplied.

This can be displayed on the invoice as follows:

Supply charges, from 1/10/2021 to 31/10/2021	**SAR 130.00**
VAT at 15%	SAR 19.5
Total	SAR 149.5
Offset for surplus solar energy generated 160 kilowatt-hours × SAR 0.27	(SAR 43.20)
Total amount due	SAR 93.30

6.4 VAT Treatment of Electricity Transmission

The transmission of electricity is regarded as a transport of goods for VAT purposes, whether carried out by a Person licensed to undertake transmission through a transmission system or locally from a small generation station to the consumer.

The transmission of electricity within the Kingdom by a taxable supplier is treated as a supply of transport services and is subject to VAT at 15%. Please review Paragraph 4.5 above for further details regarding the place of supply in other cases.

A company acting as a transmission supplier may levy additional charges, such as transmission capacity charges or charges for access to the transmission network. These charges are also treated as a "supply of services" for VAT purposes and are subject to VAT at 15%.

6.5 VAT Treatment of Electricity Trading

Trading activities include the purchase and sale of electricity in the wholesale market by Persons who do not generate or consume electricity.

Electricity trading involves the delivery of a specified quantity of energy on a defined date (for example, spot trading under which energy is transferred on the date of agreement). The consideration paid for the energy is subject to VAT from the date of supply (the date of receipt of the energy), or on the date of issuing tax invoice, or on the date of receiving partial or full consideration, whichever is earlier, [47] and to the extent of the amount received.

47. Article 23, Unified Agreement for VAT

6.5.1. Trading in Electricity Derivatives

Commodity derivative contracts may also be concluded with electricity as the underlying commodity. This may include, for example, a forward contract or an option. Traders often enter into commodity derivative contracts as a financial derivative without any intention of purchasing or selling the underlying commodity.

Any explicit fees (or "premiums") paid to enter into a commodity derivative contract constitute consideration for a taxable supply, provided that the contract allows for the delivery of electricity to take part at a delivery point in the KSA.

Traders who enter into financial contracts must also consider the impact of exempt supplies on the deduction of input tax and the appropriate method of proportional deduction. For further information, please check the Financial Services Guideline and the Input Tax Deduction Guideline.

7. Distribution or Retail Contracts: Common Issues

This section addresses certain key issues concerning electricity and other utilities supplied to consumers.

7.1 VAT Application to Supplies of Goods and Services

The supply of goods and associated services for consumption under a service contract over a specified period constitutes a "continuous" supply. Accordingly, VAT becomes chargeable on based on each installment/payment, in accordance with the following rule:

- Where a utility services contract includes periodic installment amounts with a due date for each installment, VAT becomes due on the installment due date, the actual payment date, or the invoice date of issuance, whichever comes first, and at least once in every consecutive 12-month period.[48]
- In all other cases, VAT becomes due on the invoice date of issuance or the actual payment date, whichever is earlier. [49]

In general, the principal supply (such as the supply of electricity, water, and gas) and related services under distribution contracts by a taxable supplier to a customer in the KSA are subject to VAT at 15%. Examples of related services include:

- Additional charges for providing secure supply capacity or the capacity to supply in emergency situations.
- Periodic supply charges (for example, daily or monthly charges not linked to the volume of consumption).
- Wastewater disposal services.
- Network connection, reconnection, or disconnection.
- Installation of equipment such as meters.
- Repair and maintenance of customer equipment.

7.2 Retrospective Discounts

Where a discount to the amount due is given after the issuance of the tax invoice by the supplier, the supplier must issue a credit note to record the adjustment to the consideration (subject to the special cases outlined in Paragraph 7.3 below). A retrospective discount may also be described as a "cash discount" - in cases where the supplier repays consideration initially paid by the customer.

48. Article 20 (1), the Implementing Regulations
49. Article 20 (2), the Implementing Regulations

Where a credit note is issued, this will affect the supplier's output tax calculation and the deduction of input tax (in cases where the customer is a taxable person). For further details, please refer to the Guideline on Tax Invoices and Records.

7.3 Special Case: Adjustments to Current Invoices

Suppliers of electricity, water, or other utilities frequently issue a tax invoice for a given period based on estimated usage during that period. Estimated billing may arise where the supplier does not have accurate usage data from the reading of the customer's meter for a completed period. The estimation of the customer's usage for that period is often based on the prior consumption pattern of the relevant property.

In utilities sector, an adjustment may be made to a current utility bill in cases where a previous bill was issued based on inaccurate data (such as an incorrect meter reading or incorrect pricing information). This is done instead of issuing a credit note or debit note to adjust the consideration previously charged.

7.3.1. Estimated Billing

A bill based on estimated consumption remains due for payment; however, the actual consumption will be monitored the next time the supplier obtains accurate usage data (for example, at the next meter reading). To reflect this actual usage, it is common commercial practice in the utilities sector to make an adjustment to the consideration due in the invoice issued for the subsequent billing period, rather than correcting the tax invoice previously issued for the prior billing period:

- This may take the form of a credit or debit entry in the subsequent invoice to adjust the difference between actual usage and estimated usage; or
- Where meter readings are taken over a longer period (and less frequently than each billing period), the tax invoice issued following the actual meter reading will be based on the actual consumption over the longer period, less the estimated consumption previously invoiced to date.

7.3.2. Output Tax Adjustment

Where VAT on the supply has been reported in a previous tax return based on the original consideration, an adjustment to output tax must be made for VAT purposes:

Upwards Adjustment to Output Tax	In the tax period in which the consideration was changed [50]

ZATCA accepts that the consideration may be adjusted when the supplier obtains the actual or updated data and notifies the customer of the adjustment to the consideration, provided that the tax invoice for the initial period is accurately estimated based on the information retained at that time, and establishes an obligation on the customer to pay that estimated amount.
In such cases, the output tax on the supplies in the earlier billing period should therefore be adjusted in the tax period in which the billing adjustment is made.

Downward Adjustment to Output Tax	In the tax period in which the consideration was changed, or that in which a credit note was issued to the customer, whichever occurs later.[51]

If a downward adjustment is made to the consideration through an amended invoice for a subsequent tax period (instead of issuing a credit note to adjust the previous period), the output tax shall be adjusted upon reporting the output tax in respect of that amended invoice.

Example (13):
An electricity supply company supplied electricity under a contract to the business office of Crown Services in Dammam. Due to a technical issue, the supply company was unable to obtain a meter reading for the actual consumption in September 2019. In accordance with its supply contract, it issued an electricity bill on 30th September 2019 based on an estimated usage of 120 kilowatt-hours for the month (calculated from the previous usage by Crown Services in prior months). The amount of bill was SAR 360, plus VAT of SAR 54.
On 31st October, the supply company was able to read the meter for the actual electricity consumption for September and October 2018, finding out that it was 150 kilowatt-hours for the 2-month period. Based on this data, it is likely that there was an overestimation in the consumption reading for September. However, in line with commercial practice, the supply

50. Article 40 (4), the Implementing Regulations
51. Article 40 (5), the Implementing Regulations

company reflected the adjustments in the October bill (charging only for an additional 30 kilowatt-hours) and did not amend the estimated invoice issued in September.

In this case, the taxable person (the supply company) is not required to retrospectively adjust VAT (output tax) in the VAT Return for September. Instead, the company applies VAT to the October invoice in an ordinary manner at the standard rate of 15%. This way, the actual electricity consumption for September and October 2018 is subject to VAT in accordance with the established commercial practices for estimating actual usage and issuing invoices.

If the customer is a taxable person and receives a credit note reflecting a downward adjustment to the consideration, the taxable customer must adjust any input tax deduction made in respect of the amount of the original invoice.

7.4 Prompt Payment Discounts

A supplier may offer a discount to customers in respect of a supply of goods or services with the provision that the latter makes payment for the supply before a specified date. In cases where the customer makes early payment and is given a discount, it must be reflected in the consideration paid in respect of both the output tax reported and the tax invoice issued by the supplier.

If a tax invoice has already been issued showing VAT based on the non-discounted consideration, a credit note must be issued to reflect the discounted consideration.

7.5 Late Payment Fee

A utility supplier may, in many cases, impose additional charges or administrative fees on a customer who fails to settle their invoice by the due date.

In general, such charges are considered consideration for goods or services provided by the supplier. Depending on the contractual arrangements, this may take the form of:

- An increase in the charges for the goods or services supplied under the services contract - this is additional consideration for the original supply and is subject to VAT at the rate of 15%.
- An administrative fee for the supplier to follow up and manage the overdue amounts - this constitutes a separate service subject to VAT at the rate of 15%.
- An explicit amount (such as a fixed fee or a fixed percentage of the overdue amount) for extending a payment facility - this is a financial service with an explicit fee, which is subject to VAT at the rate of 15%.

In certain cases, the supplier may charge an implicit margin on an overdue amount (which would be exempt from VAT) or may claim compensation for actual damages arising from late payment (which would not be subject to VAT). Such cases are not expected to be common in practice within the sector. ZATCA expects that late payment charges will generally be levied and that these charges will be subject to VAT at the rate of 15%. A supplier adopting a different treatment must retain clear evidence to support such treatment.

7.6 Security Deposits

A Security Deposit is a common commercial arrangement within the sector, whereby an amount of money is held by a licensed distributor or retailer as a security measure (for example, against customer default on obligations or damage).

The treatment of deposits has not been expressly addressed under the VAT laws in KSA. However, any payment of an amount as consideration entails a tax point, and consequently the corresponding tax becomes due (within the limit of that payment). [52]

ZATCA views that the security deposit that is available for use by the supplier and can be applied to taxable supplies or taxable utility services is a consideration for future taxable supplies. VAT must therefore be applied to the deposit at the rate of 15% and reported as output tax.

However, if the supplier:

- retains the security deposit with a third party or in another separate account; and
- is contractually unable to use the deposit funds, or to apply them as consideration for taxable supplies, until the occurrence of a certain event;

then, ZATCA recognizes that the deposit payment does not constitute consideration for taxable supplies. In such cases, VAT becomes due only when the deposit amount becomes available for use by the supplier.

If the deposit amount is refunded and has not been used for taxable supplies, this does not give rise to any VAT implications for either the supplier or the customer.

52. Article 23 (1), Unified Agreement for VAT

Example (14):

An electricity supply company receives a deposit of SAR 500 from a new residential customer on 1st January 2020. Under contract, the company must retain these funds in a separate account and may not use these funds except when the customer defaults on their obligations for 20 days or more, or where the customer agrees to the use of the funds for the company's supplies.

The receipt of security deposit is not regarded as consideration for the supply made by the electricity company. At the end of the 12-month period, the electricity company agrees to release the security deposit amount. On 3rd January 2021, the customer agrees to offset the amount of the next invoice due (SAR 315 for electricity consumption in December) and to pay the remaining balance in cash.

For VAT purposes, the tax point for SAR 315 applied by the customer is 3rd January 2021. The refund of the remaining security deposit amount of SAR 185 to the customer is not subject to VAT.

7.7 Prepayment Meters (PPMs)

Prepaid meters are considered a method of payment for energy whereby customers place credit in their accounts before using the energy, instead of receiving periodic invoices after consumption.

Payment of credit through prepaid meters, or any similar mechanism under which the customer is required to make an advance payment for future taxable supplies, constitutes consideration for the taxable supplies provided by the supplier.

The supplier must account for VAT on the date of payment and issue a tax invoice within 15 days from the end of the month in which the payment is made.

7.8 Payment of Additional Consideration

In cases where a customer makes multiple payments against a supplier's invoice by mistake, or in other cases where a customer makes an additional payment to the supplier that cannot be allocated to any future supply, receipt of such payment does not constitute consideration for a supply.

Example (15):

On 2nd January 2020, a water supply company issues an invoice of SAR 420 to Samir Clothing Company for the supply of water during the fourth quarter of 2019. The accountant receives the invoice and settles it in full on 6 January. The business owner views the charge on his online account and makes another full payment on 7 January. No other amounts are due to the water supply company; therefore, the supplier retains the credit balance on the account until an invoice is issued in the following quarter.

The second payment made by mistake is not considered a deposit for a future supply. VAT becomes due at the time the subsequent tax invoice is issued.

7.9 Compensations Paid to Customers

A supplier may opt to offer customers discounts as a goodwill gesture to compensate for minor errors, such as an incorrect invoice or a minor interruption in supply. Generally, such compensation is treated as an adjustment to the consideration for the supply.

There are other cases in which the customer is contractually entitled to claim compensation for losses resulting from an error by the supplier, such as loss of revenue due to a power outage or damage to property caused by a power surge. For VAT purposes, such claims are not subject to VAT as they do not constitute a taxable supply. Furthermore, the payment of compensation by the supplier does not reflect an adjustment to the consideration payable for goods or services provided by the supplier in the past or in the future.

Example (16):

Advanced Laboratories has an electricity supply contract with an electricity supply company. In April 2021, Advanced Laboratories experienced a prolonged power outage and damage to electrical equipment due to a power surge. Accordingly, the company submitted a claim to the taxable supplier for compensation for the actual damages incurred. In May 2021, the electricity supply company agreed to pay the customer a compensation of SAR 2,500 for all damaged electrical equipment.

The payment of this compensation is not subject to VAT, as it is not considered a "taxable supply" made by Advanced Laboratories or the electricity supply company for VAT purposes. This does not result in any adjustment to the electricity supplier's output VAT on its utility supplies.

7.10 Adjustment for non-Payment (Bad Debts)

In cases where a taxable supplier does not receive all or part of the consideration for a taxable supply that it has made, the supplier may "write off" the amount owed by the customer as a "Bad Debt" for accounting purposes, provided that the supplier has taken the usual commercial measures to collect the debt.

There is a VAT treatment applicable to debts written off by the supplier in this manner, whereby the taxable person may reduce the output tax previously calculated on the unpaid consideration through the VAT return, provided that all of the following conditions are met:

- The taxable person has previously included the tax calculated on the taxable supply as output tax in their VAT return and has paid the tax due;
- The consideration resulted from a supply of goods or services made to a non-related person;
- A period of not less than 12 months has elapsed from the date of the taxable supply;
- The taxable person hold a certificate issued by a licensed and certified public accountant proving that the debt has been written off in the books, or any other supporting documents acceptable to ZATCA, where the taxable person is not required to appoint an auditor.
- In cases where the amounts unpaid by the customer exceed SAR 100,000 and the taxable person has formally initiated legal proceedings without effective result, the taxable person may submit evidence of these procedures, such as the issuance of a judicial judgment, the bankruptcy of the debtor, or a court order commencing any other formal procedure evidencing the claim. (53)

The adjustment must be declared in the VAT return for the first tax period in which all the conditions specified are met.

If, after adjusting the value of supply according to the above conditions, the taxable supplier receives all or part of the consideration, the VAT calculated on the subsequent consideration shall become due and must be declared in the VAT return for the tax period in which the payment is received, whether in part or in full. A new tax invoice must also be issued to reflect the additional amount received. (54)

53. Article 40 (7), Implementing Regulations. (This relief is not available for any supplier using the cash accounting basis to report VAT.
54. Article 40 (9), Implementing Regulations

8. Deduction of Input Tax

8.1 General Provisions

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

- VAT charged by a supplier registered in the Kingdom;
- VAT self-accounted for by a person registered for VAT purposes under the reverse charge mechanism;
- VAT on imports paid to ZATCA upon the importation of goods into the Kingdom.

As a rule, Input Tax on VAT-exempt supplies may not be deducted.

In addition, Input Tax may not be deducted on any expenses incurred not as part of the taxable person's economic activity (including certain types of restricted expenditures such as entertainment services, cultural services, catering services, and restricted vehicles)(55), or any other costs relating to VAT-exempt supplies. Input Tax constitutes a credit balance to be included in the VAT return and deducted from the VAT due on supplies (Output Tax) made during that period.

Input Tax may only be deducted where the taxable person holds a tax invoice or customs documentation evidencing the amount of tax due, or any alternative document evidencing the amount of Input Tax paid or payable, if approved by ZATCA.(56)

8.2 Proportional Deduction of Input Tax

Input Tax incurred in relation to a taxable person's VAT-exempt supplies-such as exempt financial services or residential real estate-is not eligible for deduction. (Note: Real estate supplies are generally exempt from VAT but remain subject to Real Estate Transaction Tax (RETT). For comprehensive details, please consult the Real Estate Transaction Tax Guidelines.) A taxable person engaged in both taxable and exempt activities may deduct input VAT specifically associated with their taxable supplies. However, where general expenses are incurred for the benefit of both taxable and exempt supplies, the taxable person must accurately apportion these costs to determine the specific portion attributable to taxable activities. The eligibility for input tax recovery is determined by the following classification:(57)

55. Article 50, Implementing Regulations, List of Restricted Expenditures
56. Article 49 (7), Implementing Regulations
57. Article 51, Implementing Regulations.

Input tax directly attributable to VAT taxable supplies	Fully Deductible
Input tax directly attributable to VAT-exempt supplies	Not Fully Deductible
General expenses and input tax that cannot be directly attributable to taxable supplies	Partially Deductible based on apportionment

A taxable person's general expenses/costs used in making VAT-taxable and exempt supplies must be apportioned to properly reflect the use of such costs in the taxable person's VAT-taxable activities.

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

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

The above-mentioned method does not include Capital Assets Supplies made by a taxable person, as their inclusion would distort the use of Input Tax.

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

9. VAT Liabilities of Taxable Person

A taxable person must assess VAT liability and comply with VAT conditions and obligations. This includes registration for VAT, where required, accurately calculating the net tax due, paying VAT on time, maintaining all required records, and cooperating with ZATCA's officials upon request.
Should a taxable person require clarification regarding their obligations, they are advised to contact ZATCA via the official website (zatca.gov.sa) or through established communication channels. Additionally, taxable persons may engage qualified professional advisers for external technical guidance.
The following sections detail the primary tax obligations as stipulated by the VAT Law and its Implementing Regulations.

9.1 Tax Invoicing

The supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any other legal person or individual establishment, or other entity established in the Kingdom under its applicable laws, or issue a simplified invoice in the event that the value of the supply is less than SAR 1,000, or for supplies made to the end consumer, by no later than 15 days following the end of the month in which the supply is made.
A tax invoice must also be issued in respect of intra-GCC supplies, exports, and the supply of services subject to the zero percent rate to a non-resident customer in one of the GCC member states.
Each VAT invoice must explicitly contain specific mandatory information, including the date of issuance, the supplier's Tax Identification Number, the taxable amount, the applicable tax rate, and the total VAT charged. [58]
In instances where multiple tax rates apply to a single invoice, the value of each item must be listed separately alongside its corresponding VAT amount. A commercial document, such as a ticket or receipt, may serve as a tax invoice provided it fulfills all the requirements for a standard or simplified tax invoice as stipulated in the Implementing Regulations. [59]
For additional information regarding invoicing requirements, please consult the General Guideline to VAT or the Tax Invoices Guideline.

58. For further details, please refer to the Tax Invoices Guidelines and Article 53 of the Implementing Regulations.
59. Article 53, Implementing Regulations.

9.2 Filing VAT Returns

A VAT-registered person, or an authorized representative, is required to submit a VAT return to ZATCA for each applicable monthly or quarterly tax period. The submission of a tax return constitutes a self-assessment by the taxable person of the tax liability for that specific period. Monthly tax periods are mandatory for taxable persons whose annual revenues exceed SAR 40,000,000, while the standard tax period for other taxable persons shall be 3 months.

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

Further details on the filing of VAT returns will be provided in a separate Guideline.

If a tax return yields a refundable amount or if a taxable person has a credit balance for any reason, the taxable person is entitled to submit a formal refund application. This request may be filed concurrently with the tax return or at any point within the following five years. Upon verification and approval of the claim, ZATCA shall remit the refundable amount directly to the taxable person.[60]

9.3 Recordkeeping

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

- Issued and received tax invoices
- Accounting books and records
- Contracts or agreements pertaining to significant sales and purchase transactions
- Bank statements and other relevant financial records
- Import, export, and shipping documents
- Any additional documents relevant to the determination of VAT.

Records may be maintained in either physical or electronic formats, provided they comply with the conditions specified in the Implementing Regulations. All such documentation must be made available to ZATCA upon request. All records must be retained for at least the basic retention period of 6 years. The minimum retention period shall be extended to 11 years with respect to invoices and records relating to movable capital assets, and 15 years with respect to invoices and records relating to immovable capital assets.[61]

60. Article 69, Implementing Regulations.
61. Article 66 and Article 52, Implementing Regulations.

While a taxable person may appoint an agent or a third-party service provider to maintain these records, the taxable person remains directly and ultimately responsible for compliance with all record-keeping requirements. [62]

9.4 VAT Registration Certificate

A resident taxable person registered with ZATCA must prominently display their VAT Registration Certificate at their principal place of business, all branch locations, and on any online storefronts. The certificate must be positioned in a manner that remains clearly visible to the public.
Failure to comply with these requirements shall subject the offending party to the penalties stipulated by Law.

9.5 Reporting and Correcting Past Mistakes

A taxable person who identifies an error or inaccuracy in a previously filed tax return that resulted in an under-declaration of due tax must notify ZATCA within 20 days of discovery. This notification is to be fulfilled by submitting an amended tax return to correct the discrepancy.

For errors resulting in a net tax difference of less than SAR 15,000, the taxable person may satisfy the correction requirement by adjusting the net tax in the subsequent tax return.

In instances where an error results in an over-declaration of due tax, the taxable person is permitted to rectify the error in any subsequent tax return. This adjustment must be made within a maximum of five years from the conclusion of the calendar year in which the relevant tax period ended.[63]

62. Article 66 (4), Implementing Regulations.
63. Article 63, Implementing Regulations

10. Penalties

ZATCA is empowered to impose penalties or sanctions for violations of the VAT Law and its Implementing Regulations.[64]

Non-Field Violations

Description of Violation	Respective Fine
Submitting incorrect documentation with the intent to evade tax or underpay the amount due.	• A minimum of the tax due, up to three times the value of the relevant goods or services
Transporting goods into or out of the Kingdom without payment of the required tax.	• A minimum of the tax due, up to three times the value of the relevant goods or services
Failure to register for VAT within the legally prescribed timeframe.	SAR 10,000
Submitting an incorrect VAT return, amending a VAT return after submission, or submitting any document to the Authority relating to tax due that results in an error in calculating VAT less than due.	25% of the difference between the calculated tax and the actual tax due. ZATCA may adjust this between 0% and 50%
Failure to file a tax return within the specified deadline.	5%-25% of the tax amount that should have been declared.
Failure to settle the VAT liability by the prescribed deadline.	5% of the tax due for each month or part of a month that the tax remains unpaid
Collecting VAT without being a registered taxable person.	Up to SAR 100,000

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

In the above-mentioned cases, if a violation is repeated within three years of a final penalty decision, ZATCA may double the fine upon recurrence.

In determining the specific level of any penalty, ZATCA shall evaluate the taxable person's behavior and overall compliance history, specifically considering whether the person notified ZATCA of errors and cooperated during the correction process.

The penalty regarding "Submitting or amending a return or document that results in an under-calculation of tax due" shall be calculated as set out in the table above, and in accordance with the following rules:

First: Increasing the Penalty

ZATCA may increase the penalty for "Submitting or amending a return or document that results in an under-calculation of tax due" up to a maximum of 50% of the tax difference between the calculated and the actual tax due, if one or more of the aggravating factors are present:

1. A 10% increase applies if the error in the tax return is linked to a tax evasion case for which a decision has been issued by ZATCA, as determined under Article 39 of the VAT Law.
2. A 10% increase applies if the taxable person's compliance record is classified as "Very Poor."
3. A 5% increase applies if the taxable person's compliance record is classified as "Poor."
4. A 5% increase applies if the tax difference between the calculated and the actual tax due, payable, or refundable, relating to the total periods subject to amendment, exceeds 20% for monthly filers or 40% for quarterly filers.

Second: Reduction of the Penalty

ZATCA may reduce the penalty for "Submitting or amending a return or document that results in an under-calculation of tax due" down to 0% if mitigating factors exist, subject to the following conditions:

1. A 5% reduction applies if the taxable person's compliance record is classified as "Good".
2. A 5% reduction applies if the tax difference between the calculated tax and the actual tax due, payable or refundable, relating to the total periods subject to amendment, is less than for monthly filers; or 15% for quarterly filers.

3. A 10% reduction applies if the taxable person pays the tax difference within 30 days of ZATCA's assessment decision.
4. A 15% reduction applies if the taxable person is classified as a micro-enterprise. An entity shall be considered a micro-enterprise if its annual taxable revenues do not exceed SAR 3 million in the 12 months preceding the assessment.
5. Mitigating factors, mentioned above, may not be combined, with the sole exception of the "payment of the tax due" factor.
6. Notwithstanding the above, no reduction shall be granted if the error is linked to a case of tax evasion confirmed by ZATCA.

Third: Criteria for Determining Compliance Level

ZATCA determines a taxable person's compliance level by the number of violations in previous tax returns relating to submission by the due date or payment of tax by the due date, as follows:

1. Compliance is considered good if no violations have occurred within the preceding 12 months.
2. Compliance is considered poor: For monthly filers, if three and up to six violations are committed within the preceding 12 months. For quarterly filers, if one or two violations are committed within the preceding 12 months.
3. Compliance is considered very poor: For monthly filers, if more than six violations are committed within the preceding 12 months. For quarterly filers, if more than two violations are committed within the preceding 12 months.

Fourth: Cases Where No Penalty is Imposed for Tax Return Errors

No penalty for tax return errors shall be imposed in the following instances:

1. A taxable person corrects the tax return per Article 63 of the Implementing Regulations of the VAT Law prior to being notified of an audit or inspection by ZATCA.
2. The total tax difference between the calculated and actual tax due is less than SAR 5,000.

Fifth:

If a taxpayer submits a voluntary disclosure after an audit notification, the penalty is reduced to 10% if the disclosure covers more than 50% of the identified tax differences. The penalty is further reduced to 0% if the tax due is settled within 30 days of the assessment notification.

Field Violations

Field violations are initially addressed through notification and education of the violator, with a 30-to-60-day grace period to rectify the issue. An exception applies to violations that prevent or obstruct ZATCA's employees from performing their duties or tasks. In such cases, the violator shall be granted a period not exceeding ten days from the date of imposing the last penalty to rectify the violation. If a field violation is repeated, penalties will be imposed consecutively.

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

11. Requesting an Interpretative Decision (Tax Ruling)

Taxable persons who remain uncertain regarding the tax treatment of a specific current or proposed transaction, having already reviewed the relevant statutory provisions and official guidelines, may submit a request to ZATCA for an interpretative ruling. All applications must be submitted in accordance with the tax Rulings Guideline.

12. Contact Us

For further information regarding any transaction subject to VAT, please visit zatca.gov.sa or contact us at 19993.

13. Frequently Asked Questions (FAQs)

1. Is VAT incurred on public utility services, such as electricity and water, deductible?

Yes, provided these services are utilized for taxable business activities. VAT is deductible via the tax return if incurred during an economic activity that supports taxable supplies. However, no deduction is permitted for goods or services allocated for personal use and not for the company or the economic activity. To substantiate the deduction, utility invoices must be issued in the name of the registered business entity.

2. Are invoices for water and electricity issued by state-owned suppliers subject to VAT?

Yes. Public utility invoices issued by either public or private suppliers are subject to the standard VAT rate of 15%.

3. May a new power generation company register for VAT before actual production commences?

Yes, if the company's expenses exceed the optional VAT registration threshold. The company may register voluntarily and deduct input VAT incurred on expenses that are to be used in making taxable supplies.

4. A generation company holds an import license and therefore imports equipment on behalf of its supplier, who will install the equipment as part of its supply. May the generation company deduct VAT?

Yes, the generation company may deduct VAT on the import of goods, provided that the goods are used in making taxable supplies of energy. The VAT may also apply to the supply of goods within the KSA. The determination of the deduction of VAT in relation to the supply shall also be based on the production/generation company.

5. A supply company issues a tax invoice based on an estimated meter reading. Later, an actual meter reading is required, and the company is requested to charge an additional amount in the next billing cycle. How will VAT be charged and reported?

The supply company may charge VAT on the higher amount in the tax invoice for the subsequent billing cycle, on the basis that the first invoice (using estimated data) was issued in accordance with normal commercial practice. No adjustment is required to the tax return in which the original tax invoice was reported.

6. A manufacturing company constructs a small electricity generation facility to be used as a backup generator during peak load periods. The company consumes all the power and does not make any supplies of electricity to other companies. What are the VAT implications?

The manufacturing company does not make any supply of energy for VAT purposes. It is entitled to deduct the VAT incurred on the construction and operation of the facility, provided that the power is used in the course of making taxable supplies.

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