VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline for

The Transport Sector under VAT Provisions

Version 3 | May 2026

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

The Zakat, Tax and Customs Authority (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.

Revision Log

#	Edition No.	Amendment Date	Section/ Clause	Amendment Type	Amendment Description	Notes
1	3	May 2026	2 5.2 5.3 7 9.9	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	-

Table of Contents

1. Introduction	6
1.1 Implementation of the Value Added Tax Law in the Kingdom of Saudi Arabia	6
1.2 Zakat, Tax and Customs Authority (ZATCA)	6
1.3 What is VAT?	7
1.4 This Guideline	7
2. Definitions Relating to Key Terms	8
3. Economic Activity and Registration for VAT Purposes	10
3.1 Economic Activity	10
3.2 Mandatory Registration	10
3.3 Voluntary Registration	11
4. Application of VAT to the Transport Sector: Place of Supply	12
4.1. Special Rules for the Place of Supply	12
4.2. Place of Supply of Transport Services	12
4.3. Place of Supply of Services Related to Transport	14
4.4. Lease of the Means of Transport	15
4.5. Place of Supply of Goods	15
5. Application of VAT to Passenger Transport	17
5.1 Domestic Passenger Transport	17
5.2. International Passenger Transport	18
5.3. Transport Packages	21
6. Application of VAT to the Transport of Goods	23
6.1 International Transport of Goods Subject to the Zero Rate	23

7. Means of Transport	27
7.1 Supply or Import of Qualifying Means of Transport	27
7.2 Services Connected to the Qualifying Transport Means	30
7.3 Mixed Use of Means of Transport	31
8. Input Tax Deduction	32
8.1 General Conditions	32
8.2 Conditions Related to the Transport Sector	32
8.3 Proportional Deduction of Input Tax	33
9. Reporting for VAT	35
9.1 Date of Supply	35
9.2 Residence of the Supplier	35
9.3 Imposing VAT	35
9.4 Issuance of Invoices	36
9.5 Filing of Zakat returns	37
9.6 Record Keeping	38
9.7 Tax Obligations	38
9.8 Request for an Interpretive Decision (Tax Ruling)	39
9.9 Correction of Previous Errors	39
10. Penalties	40
12. Frequently Asked Questions (FAQs)	45

1. Introduction

1.1 Implementation of the Value Added Tax Law in the Kingdom of Saudi Arabia

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

1.2 Zakat, Tax and Customs Authority (ZATCA)

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

1.3 What is VAT?

VAT is an indirect tax imposed 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.

VAT 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 through to the retailer's sale of the final product to the consumer. Unlike other taxes, persons subject to VAT:

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

When persons subject to VAT sell a good or provide a service, they must charge Tax at a rate of 15% (assuming that the Standard Rate applies to those supplies), which is added to the final sale price. Persons subject to Tax must account for the 15% collected on taxable sales separately from their revenues to remit it to the Authority at a later stage. The VAT collected by persons subject to Tax on their sales is referred to as Output Tax.

Similarly, purchases made by persons subject to Tax are treated such that VAT at a rate of 15% is added to purchases of goods and services made by persons subject to VAT (assuming that the Standard Rate applies to those supplies). The VAT paid to their suppliers is referred to as Input Tax.

1.4 This Guideline

This guideline is directed for businesses involved in the passenger and freight transportation industries, and providers of goods and services to the industry. The guideline refers to suppliers of both international and domestic transportation alike. The purpose of this guideline is to provide further clarification regarding the tax treatment of these sectors.

2. Definitions Relating to Key Terms

1. **The Kingdom:** The territory within whose boundaries VAT is applied in the Kingdom of Saudi Arabia, and for the purpose of determining whether transport is domestic or international. These boundaries are defined in the VAT Law as follows(1):

"The territory of the Kingdom of Saudi Arabia, including areas outside the territorial waters over which the Kingdom of Saudi Arabia exercises sovereignty rights and jurisdiction over its waters, seabed, subsoil, and natural resources in accordance with its laws and international law."

2. **International Transport:** A defined term for VAT purposes, meaning:

"The supply of a transport service by means of a vehicle, aircraft, or vessel with a driver, pilot, or crew, as applicable, for the purpose of performing that service, provided that the international transport service includes the transport of goods or passengers to and from the Kingdom."(2)

The leasing of any means of transport without a driver, pilot, or crew shall not be considered a supply within the scope of International Transport.

3. **Passenger Transport:** This term is not defined in the VAT Law. The Authority considers it to include the service of transporting one or more passengers in any vehicle from one place to another, whether or not the vehicle is designed for passenger transport or whether or not the supplier is licensed to carry out passenger transport. Any goods accompanying passengers shall be regarded as part of Passenger Transport.

4. **Transport of Goods:** This term is not defined in the VAT Law. The Authority considers it to mean the transport of any goods from one place to another, provided that the goods do not accompany the customer as a passenger. It is also referred to as freight.

---

(1) Article 1(1) - VAT Law

(2) Article 34(7) - Transport Services of Goods and Passengers to and from the Kingdom and Related Supplies - Implementing Regulations

5. **Qualifying Means of Transport:** A defined term for VAT purposes. It is defined as any vehicle, vessel, or aircraft designed to transport a minimum of 10 persons or designed for the commercial transport of goods, and whose primary purpose is to carry out International Transport(3). Any means of transport that has been converted or used for recreational or personal purposes shall not be considered a Qualifying Means of Transport.

6. **Qualifying Means of Transport:** Defined term for VAT purposes, "Qualifying Means of Transport refers to vehicles, vessels, or aircraft whose primary purpose is international transport. This includes any vehicle designed to transport a minimum of 10 persons or designed to transport goods on a commercial basis, as well as any ship or aircraft designed to carry passengers or goods on a commercial basis. Any means of transport converted or used for recreational or personal purposes shall not be considered a Qualifying Means of Transport."

7. **Services Related to the Transport of Goods or Passengers:** Any services supplied together with transport services and clearly connected to such services. These services are defined in the Implementing Regulations and include the following:(4)

   a. Port fees, including charges for access to berth, mooring, docking, and parking.
   b. Customs duties, customs clearance fees, and immigration fees related to transport.
   c. Air navigation services.
   d. Pilotage services.
   e. Supply of crew members.
   f. Loading, unloading, and reloading.
   g. Stowage of cargo.
   h. Opening for inspection purposes.
   i. Cargo security services.
   j. Preparation or amendment of shipping documents, certificates, air waybills, or bills of lading.
   k. Packing necessary for transport.
   l. Storage services.

(3) Article 34(8) - Transport Services of Goods and Passengers to and from the Kingdom and Related Supplies - Implementing Regulations

(4) Article 25(2) - Place of Supply - Other Services - Implementing Regulations

3. Economic Activity and Registration for VAT Purposes

3.1 Economic Activity

Legal persons (such as companies) carry out an Economic Activity if such persons conduct a regular activity involving the making of supplies.

It should be noted that natural persons may carry out certain activities either as part of their Economic Activity or as part of their private activities. Therefore, specific rules apply to determine whether a natural person falls within the scope of VAT or not.

Persons, whether natural or legal, who carry out an Economic Activity must register for VAT purposes if required to do so. These persons are also required to collect VAT applicable to their activities and remit the collected Tax to the Authority.

3.2 Mandatory Registration

Registration is mandatory for all persons whose annual revenues exceed a certain threshold for registration. That is, if a person's taxable supplies exceed SAR 375,000 within a period of twelve months (the "Mandatory Registration Threshold"), such person must register for VAT purposes,(5) taking into account the transitional provisions set out in the Implementing Regulations relating to the Mandatory Registration Threshold during the transitional period.

The following are not included in taxable supplies for VAT purposes:(6)

- Exempt income: such as tax-exempt interest and rental of residential units exempt from Tax.
- Supplies outside the scope of VAT in any GCC member state - for example, any transport service commencing outside the territory of the GCC.
- Proceeds from the sale of capital assets: capital assets are defined as assets designated for long-term commercial use.(7)

(5) Article 50 - Mandatory Registration - Unified Agreement for VAT

(6) Article 52 - Calculation of the Value of Supplies - Unified Agreement for VAT

(7) Unified Agreement for VAT

In certain cases, other provisions regarding Mandatory Registration apply:

- Non-residents in the Kingdom of Saudi Arabia who are obliged to pay VAT on supplies they make or receive in the Kingdom must register for VAT purposes regardless of the value of the supplies on which they are obliged to collect and remit Tax.(8)

Example (1): Abdullah operates a goods transport business with annual revenues of SAR 900,000. During 2018, he sold a refrigerated truck used in his activities for SAR 150,000. Abdullah's total revenues in 2018 amounted to SAR 1,050,000; however, he is still not required to register for VAT purposes because the value of his supplies did not exceed the Mandatory Registration Threshold after excluding the proceeds from the sale of capital assets.

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

3.3 Voluntary Registration

A person resident in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses(9) exceed SAR 187,500 within a period of twelve months (the "Voluntary Registration Threshold") may voluntarily register for VAT purposes. Voluntary Registration for VAT is preferable if the person wishes to claim a refund of VAT paid on expenses prior to issuing invoices or making taxable supplies.

Further information on Voluntary Registration for VAT purposes can be found on the website **zatca.gov.sa**

(8) Mandatory Registration of Non-Residents Obliged to Pay Tax in the Kingdom - Implementing Regulations

(9) Article 7 - Voluntary Registration - Implementing Regulations

4. Application of VAT to the Transport Sector: Place of Supply

4.1. Special Rules for the Place of Supply

VAT is imposed in the Kingdom on transactions that occur within the Kingdom only, and transactions involving a supply made within the Kingdom will generally be subject to VAT in the Kingdom, either at the rate of 15% or the Zero Rate. Transactions where the place of supply is outside the Kingdom shall not be subject to VAT in the Kingdom. The rules for determining the locations where transactions occur are called the special rules for the place of supply. These rules have been agreed upon at the level of the GCC Member States to determine in which country VAT should be applied in cases of intra-GCC supplies. This Guideline addresses the VAT implications on transport activities in the Kingdom.

4.2. Place of Supply of Transport Services

The place of supply for any service for the transport of passengers or transport of goods (freight) is the place where such transport begins.(10) This rule is applied regardless of the place of residency of the supplier, the place of residency of the customer, the registration status for VAT purposes, or the booking method (whether the booking was made in person or through electronic booking services), as the place of supply for transport services and the applicable VAT rate do not change based on the aforementioned cases.

(10) Article 18 - Supply of Transport Services for Goods and Passengers - Unified VAT Agreement

Start of Transport	End of Transport	Details	Will VAT be Applied?
Inside the Kingdom of Saudi Arabia	Inside the Kingdom of Saudi Arabia	Place of supply is in the Kingdom of Saudi Arabia (domestic transport)	Yes - Standard Rate (15%)
Outside the Kingdom of Saudi Arabia	Inside the Kingdom of Saudi Arabia	Place of supply is the Kingdom of Saudi Arabia	No - Outside the scope of VAT application
Inside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Place of supply is in the Kingdom of Saudi Arabia (international transport)	Yes - Zero Rate
Outside the Kingdom of Saudi Arabia	Outside the Kingdom of Saudi Arabia	Place of supply is outside the Kingdom of Saudi Arabia	No - Outside the scope of VAT application

Transport that continues for a specified period is considered a single supply even if it is carried out through different means of transport, where the transport service supplier agrees with the customer to transport passengers or goods from the place of commencement of transport to the intended destination. In this case, the transport supplier may perform the supply himself or delegate all or part of the transport services to third parties.

Example (2): A passenger purchased 1 ticket from a Russian airline to travel from the city of Moscow to the city of Jeddah, and the main itinerary of the flight includes a stopover in the city of Riyadh, where the passenger catches a domestic flight to the city of Jeddah.

This supply is considered a single supply for a passenger transport service, and the place of supply therein is outside the Kingdom of Saudi Arabia. The VAT applied to flights connected to international flights is discussed in detail in Section 5 below.

Example (3): A factory in the Kingdom of Saudi Arabia arranged with a local carrier of goods to receive goods from its factory and transport them to the port in Ras Al-Khair. It then contracted with a separate supplier to ship its goods from Ras Al-Khair to a port in the United Arab Emirates.

Although the transport services were performed on the same goods, there are two supplies of transport services from separate suppliers, and each supply starts in the Kingdom of Saudi Arabia, with the place of supply being in the Kingdom of Saudi Arabia.

4.3. Place of Supply of Services Related to Transport

The place of supply of services related to transport follows the same rule regarding the determination of the place of supply of transport services, as specified in Section 4.2 above. Accordingly, the place of supply of services related to transport is the place where the primary transport starts.(11) This rule applies regardless of the place of residence of the supplier and the customer or their VAT registration status.

Example (4): A transport company charges additional fees related to the security protection of sensitive goods transported from the city of Dammam to the state of Singapore. Protection services in this case are services related to the transport of goods; accordingly, the place of supply of this service is the place where transport starts, which is the Kingdom of Saudi Arabia. Therefore, this supply may subsequently be subject to the Zero Rate if the conditions for Zero-Rating set out in the Implementing Regulations are met, as these services are linked to international transport.

The restriction of that rule is that any service related to the transport and clearance of goods imported from outside the Kingdom is outside the scope of VAT in the Kingdom. This includes, for example:

- Port fees
- Customs clearance
- Insurance
- Loading and unloading
- Storage related to import
- Inspection services(12)

(11) Article 18 - Supply of Transport Services for Goods and Passengers - Unified VAT Agreement

(12) For the full definition of services related to the transport of goods and passengers, please refer to Section (2).

4.4. Lease of the Means of Transport

In the case of leasing a vehicle or any other means of transport from a taxable person to a person or customer who is not a taxable person (i.e., not registered for VAT purposes in the Kingdom of Saudi Arabia or in any GCC member state), the place of supply of leasing services is the country in which the means of transport was placed at the customer's disposal.(13)

Example (5): A person rented a car for 2 weeks in Bahrain and used it to travel to the city of Al-Khobar to visit his family. In this case, the place of supply of the rented vehicle is Bahrain (where it was placed at the customer's disposal); therefore, the supplier does not impose VAT in the Kingdom on the lease contract.

As for lease contracts between taxable persons registered for VAT purposes within the territory of the GCC member states, the place of residence of the customer is the place of supply, based on the rules related to intra-GCC trade.(14)

4.5. Place of Supply of Goods

The place of supply of goods that does not include the transport of those goods is the place where they are physically located when placed at the customer's disposal (including the means of transport itself or spare parts.(15) In the case of the supply of goods with transport by the supplier or for the account of the customer, the place of supply is the place where the transport or dispatch of those goods starts.(16)

If the supply of goods involves the import of those goods into the Kingdom of Saudi Arabia, that supply is considered a separate taxable supply where VAT is paid to ZATCA upon the import of those goods.

(13) Article 17 - Lease of Means of Transport - Unified VAT Agreement

(14) Article 16 - Place of Supply of Services between Taxable Persons - Unified VAT Agreement

(15) Article 10 - Supply of Goods without Transport - Unified VAT Agreement

(16) Article 11 - Supply of Goods without Transport - Unified VAT Agreement

Example (6): A domestic transport company ordered spare parts from a domestic supplier who dispatched those parts from a distribution center in the city of Dammam. The place of supply of these goods in this case is in the Kingdom of Saudi Arabia, and VAT is imposed on this supply at a rate of 15%.

The transport company later needed to order a special part for one of its bus fleets directly from a supplier in France. The supplier transported these goods to the transport company. The transport of the part starts outside the Kingdom of Saudi Arabia, and therefore the supply of the transport service of the part from France to the Kingdom is not subject to VAT in the Kingdom (and the French supplier does not impose VAT in the Kingdom of Saudi Arabia on his invoice). However, the transport company must pay VAT on the import of this part at a rate of 15% to ZATCA upon the import of the goods.

5. Application of VAT to Passenger Transport

VAT is applied to any supply of transport carried out by a Taxable Person.(17) Below is a summary of the VAT treatment for transport, explained in further detail in this section for passenger transport and the subsequent section for goods transport operations:

		Passenger Transport	Goods Transport
Type of Transport	Domestic	15%	15%
	International	Zero Rate	Zero Rate

5.1 Domestic Passenger Transport

Supplies of domestic passenger transport carried out within the Kingdom of Saudi Arabia are subject to VAT at a rate of 15%, unless they are part of an international journey. Domestic passenger transport supplies include, but are not limited to, the following:

- Domestic flights
- Transport by bus or train for which tickets are issued
- Transport by boat
- Chartered transport (for school students or workers)
- Driver services
- Private aircraft, helicopters, or any other private means of transport
- Taxis and similar services, under which passengers are transported in a vehicle

The 15% rate also applies to all passenger transport fees and services related to the aforementioned transport services (including, for example, baggage fees, booking fees, on-board food, Wi-Fi fees, and taxi waiting fees).

(17) A Taxable Person is any person who conducts an economic activity and is registered, or required to be registered, for VAT purposes in the Kingdom of Saudi Arabia. Refer to Section 3 for further details on economic activity and registration.

5.1.1 Taxi Services

The service of transporting passengers in a taxi is subject to VAT when the total supplies of the service provider, who carries out an economic activity, reach the Mandatory Registration Threshold for VAT purposes (refer to registration details in Section 3 of this Guideline). The term "Taxi" has not been defined for VAT purposes; however, this term includes all persons providing public transport services for passengers through taxis licensed according to relevant regulations, or a service based on coordinating private taxis or mobile applications.

Further information regarding economic activity will be provided through the Guideline for Economic Activity.

5.2. International Passenger Transport

5.2.1 International Transport Subject to Zero Rate

The international transport of passengers departing from the Kingdom is subject to the Zero Rate in accordance with the provisions specified in the Implementing Regulations.

5.2.2 Domestic Flights Connected to International Flights with a Single Ticket

Airlines and other international transport companies often schedule international transport flights with a domestic flight connected to them via the same ticket. This may result in a journey comprising two flights, with the latter domestic and the former international, or vice versa.

In cases where a single supplier of transport services sells tickets for a journey to transport passengers from a place in the Kingdom to a place outside the Kingdom, this is considered a single journey, and the supply is subject to the Zero Rate as international transport.

By exception, where any connection or layover in an international passenger transport exceeds the time limit specified by (IATA), ZATCA will consider this stop over to have ceased the journey and a new journey to start on the resumption. Each journey will be subject to VAT as a separate supply of passenger transport services.

Example (8): A passenger bought a single ticket from an airline to travel from the city of Jeddah to the city of Moscow, and the flight route included a domestic flight to Riyadh, after which the passenger caught an international flight to Moscow.



All international transport tickets are subject to Tax at the rate of zero percent.
International transport with a domestic flight connected thereto: in this case, the domestic transport ticket is subject to Tax at the Zero Rate percent.
In the remaining cases, domestic transport tickets are subject to the Standard Rate (15%).

The passenger who bought a ticket for the flight from Jeddah to Moscow has their journey subject to Tax at the Zero Rate on both flights. As for the other passengers on the first flight from Jeddah to Riyadh, VAT at the rate of 15% is calculated on their tickets as domestic travel tickets.

5.2.3 Services Directly Linked to International Transport and Subject to Zero Rate

Other services performed by an international transport supplier that are directly or incidentally linked to the international transport of passengers are also taxable at the Zero Rate. The Authority considers these services to include all services arising as a result of transport or services that are a means to improve the benefit from the transport service. These services must be supplied to the customer through the same international transport supplier to be eligible for the Zero Rate.

Services directly linked to the supply of international transport, according to the Implementing Regulations, include the following:(18)

- Fees for transporting passengers' baggage, including pets, bicycles, and strollers.
- Transport of passenger vehicles.
- Air transport fees, air freight for passengers, and excess baggage fees.
- Seat booking fees.
- Fees for sleeping berths and cabins.

In addition to other services that allow passengers to benefit better from international transport, which will be considered eligible for the Zero Rate.

- Fees for entertainment and the use of the internet on board the aircraft or during the journey.
- Catering, including any food and drink intended to be consumed on board the aircraft or during the journey.

5.2.4 Goods Sold on Board Means of Air Transport

Goods sold during international flights departing from the Kingdom of Saudi Arabia for the purpose of consumption or use during the journey (such as food and drink sold for consumption during a flight or headphones sold for use with entertainment media) are subject to the Zero Rate according to the tax treatment for international transport.

Goods sold during the journey for subsequent use, known as "In-flight Sales" by airlines, such as jewelry and perfumes, are also subject to the Zero Rate because those in-flight sales or any supplies of goods for subsequent consumption on international flights departing from GCC countries are treated as exports by the supplier.

(18) Article 34 (2): Services of transporting goods or passengers outside the Kingdom and supplies related to transport - Implementing Regulations.

5.3. Transport Packages

Travel service suppliers may offer packages for transporting passengers, which include domestic and international flights, connecting flights, accommodation, and other services. In this case, these services are considered multiple supplies to the customer and may consist of separate elements; different tax treatments are then applied according to the nature of each supply, as in the following examples:

Zero Rate	• International transport. • Connected domestic flights (if the ticket is booked as part of an international journey). • Fees applied to bags and baggage on international flights.
Standard Rate	• Domestic transport (not booked as part of an international journey), such as buses from the airport to the hotel. • Accommodation services in the Kingdom (such as hotels). • Tourist guidance services in the Kingdom. • Domestic insurance. • Administrative fees.
VAT Not Applied in the Kingdom of Saudi Arabia	• Accommodation outside the Kingdom. • Tourist guidance services outside the Kingdom. • Visa and other government services incurred on behalf of the traveler. • Passenger insurance outside the Kingdom.

The travel service provider must determine the value corresponding to each element (unless priced separately) and then apply the appropriate VAT rate.

Travel package suppliers must not seek to artificially inflate the value of supplies subject to the Zero Rate or those not subject to VAT by a value exceeding the value of taxable supplies, and must provide evidence to the Authority regarding the validity of the commercial prices applied if requested by the Authority.

Example (9): Al-Nasr Al-Arabi Company, a tourism company in the Kingdom of Saudi Arabia, provided an Umrah trip for 7 nights through a variety of travel packages to the Bahraini market for an amount of BHD 250 (inclusive of VAT) per passenger, which includes the following services:

1. International transport (flight from Bahrain to Jeddah, then to Makkah with a short stay "transit" for one night in Jeddah).
2. Accommodation in Jeddah and Makkah.
3. Domestic transport: In the Kingdom of Saudi Arabia from and to the hotel.
4. Additional baggage fee upon return to Bahrain.
5. Tourist guidance service provided by a supplier in the Kingdom of Saudi Arabia.
6. Passenger insurance from Bahrain to Jeddah.
7. Visa cost.

In this case, Al-Nasr Al-Arabi Company applies VAT to items 2, 3, and 5 above. Since the company priced these services at BHD 100, it must convert the value of each item into Saudi Riyals (using the announced exchange rates, which are BHD 1 = SAR 10) and calculate the VAT value at 15/115 of this price. Consequently, the invoice issued to the customer is as follows:

Service Description	Service Value (BHD)	Service Value (SAR) Incl. VAT	VAT Rate	Tax Value (SAR)
International transport flight	85	850	0%	0
Accommodation	60	600	15%	90
Domestic transport	20	200	15%	30
Extra bags	10	100	0%	0
Tourist guidance	20	200	15%	30
Passenger insurance	10	100	0%	0
Visa fee	45	450	VAT Not Applied	0
Total Due	250	2,500	-	150

Al-Nasr Al-Arabi Company must then include the VAT value in its Zakat return at a value of 150 (SAR 1,000 x 15/115).

6. Application of VAT to the Transport of Goods

6.1 International Transport of Goods Subject to the Zero Rate

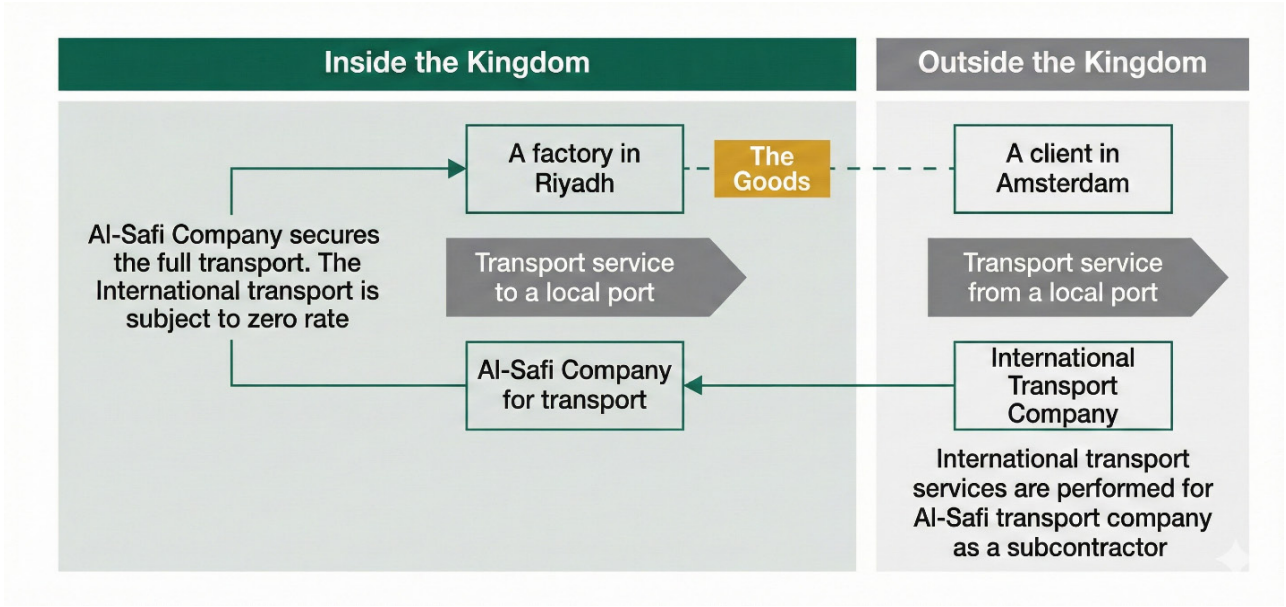
Any goods transport service starting from a place in the Kingdom and ending at a place outside the Kingdom is subject to VAT at the rate of zero percent.(19) However, goods transport services that start from a place outside the Kingdom and end at a place inside the Kingdom fall outside the scope of VAT application. Any transport service starting from a place in the Kingdom and ending at another place in the Kingdom is considered a domestic transport service and VAT is imposed thereon at the rate of 15%.

6.1.1 Multi-Component Transport of Goods

International transport of goods departing from the Kingdom often includes multiple transport operations. For example, selling goods to an external customer may involve loading the goods into a vehicle from the supplier's warehouse and transporting them to a port or airport, then transporting them from the domestic port to a final port or airport abroad, and delivery from the foreign port to a specific destination (the customer's premises). In cases where the supplier of goods arranges the supply themselves or contracts with another (single) person to make arrangements on their behalf from a place in the Kingdom to a place outside the Kingdom, the total fees incurred by this supplier will be eligible for the Zero Rate as international transport.

Example (10): Al-Saif Transport Company provided a service for transporting machinery from a factory in the Kingdom to a customer in the city of Amsterdam, whereby it loaded the machinery from the factory's headquarters in the city of Riyadh, transported it to the domestic port, and implemented export procedures. It then arranged international shipping procedures to ship the machinery to the city of Amsterdam. This is considered a single international transport service, and VAT is calculated on its fees at the Zero Rates.

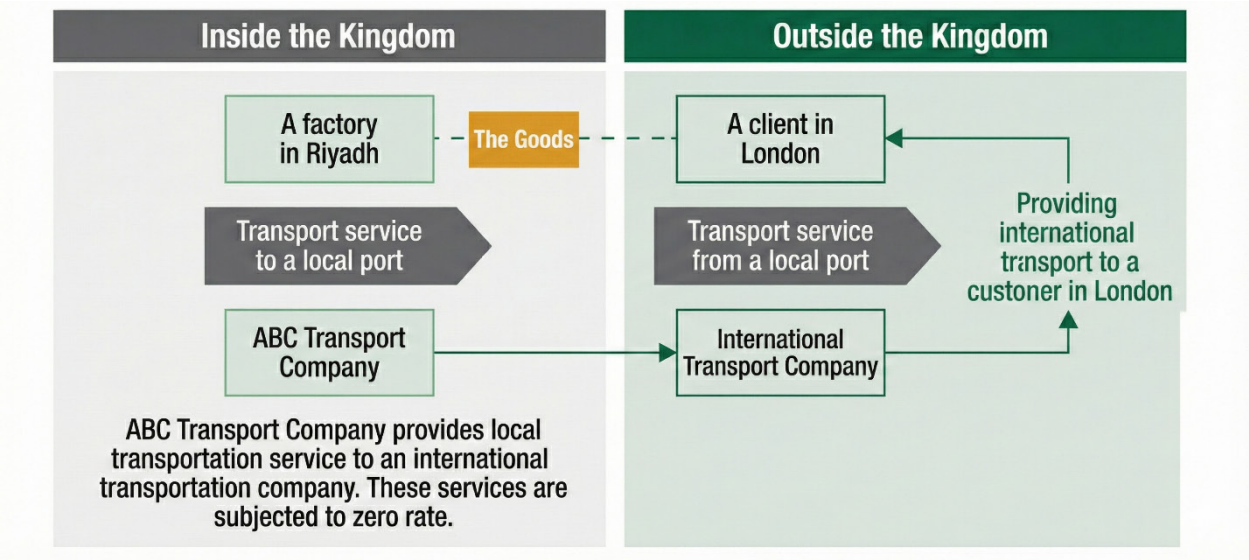
(19) Article 34 (3): Services of transporting goods or passengers outside the Kingdom and supplies related to transport - Implementing Regulations.



6.1.2 Shipping Services Provided Through Subcontracting

An international shipping company may choose to subcontract with a third party to perform part of the supply (the "Subcontractor"). In this case, the Subcontractor will itself provide a transport service to the international shipping company. The Subcontractor must determine whether its service is international or domestic transport of goods and apply the appropriate VAT accordingly.

Example (11): A customer in London contracted with an international transport company to receive machinery from a factory in the city of Riyadh. The international transport company contracted with ABC Transport Company to load the machinery and deliver it to the domestic port. Although the machinery is ultimately heading to an international location, the service provided by ABC Shipping to the international transport company consists of transporting goods from a place in the Kingdom to a port in the Kingdom; therefore, VAT must be imposed at a rate of 15% on the service provided by ABC as a domestic transport service.



6.1.3. Services Related to the Transport of Goods

Services related to the transport of goods that start outside the Kingdom will be outside the scope of VAT (refer to Section 4.3 of this Guideline).

It is also possible for supplies of services related to the transport of goods (or passengers) to be subject to the Zero Rate if at least one of the following two criteria for applying the Zero Rate is met (refer to Section 2 of this Guideline for more definitions of these services):

a. The related services are ancillary to a zero-rated international transport supply. Or,
b. The related services are linked to Qualifying Means of Transport at the airport or port.(20) (Services related to Qualifying Means of Transport are explained in further detail in Section 7 of this Guideline).

A service is ancillary to international transport services if it is performed to support a primary supply of international transport. An ancillary service is generally not considered a separate service. If the supplier provides international transport services and services connected to those services, the Zero Rate can be applied to the total consideration.

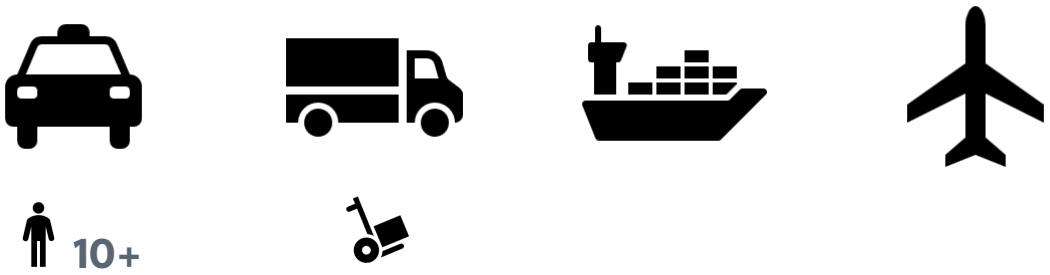
(20) Article 34 (5): Services of transporting goods or passengers outside the Kingdom and supplies related to transport - Implementing Regulations.

Example (12): Ahmed moved from the city of Riyadh to the city of Beirut and contracted with an international transport company to transport his personal belongings. Since Ahmed traveled with his friend Ibrahim for 3 months before settling in Beirut, he requested the transport company to store his personal belongings in its warehouse before transporting them to Beirut. Storage fees in this case are additional fees for international transport of goods by the supplier and are subject to the Zero Rate as a service connected to this international transport.

Example (13): Ibrahim, Ahmed's friend in the previous example, also needed to store his personal belongings and used the same company Ahmed used to store those items in Riyadh, and later contracted with a different transport company to transport those goods via express mail to the city of Beirut. In this case, the storage service was supplied by a company different from the international transport supplier; therefore, the storage services are not considered ancillary to the international transport service and consequently, the storage service is subject to VAT at the rate of 15%.

7. Means of Transport

Aircraft, ships, and other qualified means of transport, when supplied or imported into the Kingdom, are subject to the Zero Rate that applies to Qualifying Means of Transport used primarily for the international transport of goods or passengers, provided that all the following conditions are met:



A vehicle designed to carry 10 or more persons, including the driver;

A vehicle designed to transport goods on a commercial basis;

Any ship;

Any aircraft;

IF: (1) the main purpose of the means of transport is international transport; and
(2) the means of transport is not adapted or used for recreational or personal purposes.

7.1 Supply or Import of Qualifying Means of Transport

An importer of Qualifying Means of Transport must, when making the customs clearance declaration, prove to Saudi Customs that the purpose of the imported aircraft, ship, or vehicle is to be used primarily in international transport, and that they have no intention of using it for private or recreational purposes. A supplier of Qualifying Means of Transport must also determine the purpose of use by providing a certificate to the authority or the supplier stating that the supplied means of transport is qualified. The customer must provide the certificate based on the information available to them and their knowledge at the time of supply. If the customer provides an incorrect certificate, they may be subject to the penalties set out in the Law and the Regulations (please refer to the table of penalties in Section 10 of this Guideline).

A qualifying means of transport means any vehicle, vessel or aircraft designed or adapted to carry a minimum of ten (10) people, or designed to carry Goods on a commercial basis, which is used predominantly for international transportation and not domestic passenger transportation. Any means of transport adapted for or intended for recreation or private use is not a qualifying means of transport.

For the means of transport to be considered as used primarily for international transport, the customer must verify the eligibility of each means of transport they have to be a Qualifying Means of Transport, whereby "the primary purpose of using the means is international transport," before issuing the certificate to the supplier or to ZATCA for the application of VAT at the zero percent rate.

"The primary purpose of using the means is international transport" means that transport means operators must have evidence that each qualifying means is used by no less than 75% for international transport purposes. To achieve this condition, international transport service suppliers must verify that each means of transport reaches 75% or more of the Simple Average of the total of the following ratios:

1. Percentage of the number of international flights/voyages compared to the total flights/ voyages by each means of transport.
2. Percentage of the distance traveled (miles/ km) for international flights compared to the total distance traveled for all trips by each means of transport.
3. Percentage of the Revenue generated by the international trips compared to the total trips by each means of transport.
4. Percentage of the Operating costs for carrying out international trips compared to the total operating costs for each means of transport.

These ratios are calculated based on actual data extracted for each means of transport for the previous 12 months for existing means of transport already used by international transport service suppliers, or based on planned and expected data for the next 6 months for new means of transport that will be purchased and have not yet been used in the company's operational activities.

In all cases, transport service suppliers must verify that all conditions set out in Article 34 of the Implementing Regulations are met before they issue the certificate to taxable suppliers or to ZATCA that will subsequently verify the validity of the certificate provided by transport service suppliers, and the customer may be subject to the penalties set out in the Law and the Regulations if they provide an incorrect certificate.

Example (14): An airline operating in the Kingdom intends to import 3 new aircraft from the United States of America for the purpose of increasing the company's operational capacity. Upon import, the company requested ZATCA to apply the zero percent rate to the import of the aircraft, as they will be used for international transport. To enable the Authority to apply the zero percent rate, the company is obligated to issue a certificate for the Authority based on the planned and projected data for the next 6 months for the new means of transport to be purchased.

Accordingly, the company predicted the expected flight routes for each aircraft for the next 6 months. Based on this data, the company calculated the international flight ratio for each aircraft and collected the results as follows:

Expected Data for the Next 6 Months			
Description Aircraft Registration No.	Aircraft HZ - 1 ABC 1	Aircraft HZ - 2 ABC 2	Aircraft HZ - 3 ABC 3
Expected number of international flights	168	126	54
Expected number of domestic flights	72	42	186
Ratio of international flights to total flights	70%	75%	23%
Expected distance traveled for international flights	186,000	143,000	60,000
Expected distance traveled for domestic flights	39,600	53,400	67,200
Ratio of international distance to total distance	82%	73%	47%
Expected revenue from international flights	3,864,000	1,806,000	834,000
Expected revenue from domestic flights	666,000	420,000	1,290,000
Ratio of international revenue to total revenue	85%	81%	39%

Expected operating cost for international flights	1,740,000	870,000	558,000
Expected operating cost for domestic flights	420,000	258,000	660,000
Ratio of international operating costs to total	81%	77%	46%
Simple Average (Total ratios divided by 4)	80%	77%	39%

Based on the calculation, the company will not be able to issue the certificate regarding the third aircraft, HZ-ABC-3, as the total ratios are less than 75%; thus, it is subject to Tax at the rate of 15% upon import by ZATCA. ZATCA will later verify the authenticity of the certificate provided by the airline company.

7.2 Services Connected to the Qualifying Transport Means

The following services provided to international means of transport are subject to the zero percent rate:

- Repair services
- Maintenance services
- Modification services on means of transport

These services must be performed effectively and tangibly on Qualifying Means of Transport to be subject to the Zero Rate, and must be performed to ensure the continued operation of that vehicle, aircraft, or ship as a Qualifying Means of Transport. The provision of any consumable materials coupled with these services may also be subject to the Zero Rate, including, for example, fuel, lubricants for engines, spare parts, or any other goods coupled with these services.

In all cases, the supplier must obtain the certificate from the customer (in accordance with the requirement of the average ratio of not less than 75% as mentioned in Section 7.1 of this Guideline) specifying the service provided or the goods supplied in relation to the Qualifying Means of Transport.

7.3 Mixed Use of Means of Transport

Some international transport service suppliers may have a mixed fleet of trucks or aircraft used in domestic and international transport. Wherever possible, they must confirm making individual supplies regarding Qualifying Means of Transport, i.e., confirming that those means are used primarily in international transport, in accordance with what is mentioned in Section 7.1 of this Guideline.

If a service supplier has a periodic contract to provide services to a fleet of vehicles used for all types of transport, the transport supplier must provide the necessary information to the service supplier to indicate qualifying and non-qualifying vehicles. Accordingly, the service supplier must determine the part of services provided to Qualifying Means of Transport and apply the Zero Rate to those services.

Example (15): An airline with a fleet of 20 aircraft contracted with a supplier in the Kingdom of Saudi Arabia to maintain this fleet for a fixed annual fee of SAR 80,000,000. The company performed the test of each means of transport and found that it will use 16 aircraft from this fleet primarily for international transport (exceeding the 75% ratio according to the test set out in Item 7.1 above). In this case, the company must provide a statement/certificate to the maintenance service supplier clarifying the details of the aircraft considered Qualifying Means of Transport in the fleet.

Based on its customers' data, the supplier calculated the contract value related to the qualifying means, whereby SAR 64,000,000 of the annual contract value relates to international transport and is therefore subject to Tax at the rate of zero percent. The remainder of the contract value, amounting to SAR 16,000,000, will be subject to VAT at the rate of 15%.

8. Input Tax Deduction

8.1 General Conditions

A person registered for VAT purposes may deduct Input Tax imposed on goods and services purchased or received while exercising their economic activity. Input Tax may be deducted on:

- VAT imposed by a registered supplier in the Kingdom.
- VAT self-calculated by a person registered for VAT purposes according to the Reverse Charge Mechanism.
- VAT on imports paid to ZATCA upon the import of goods into the Kingdom.

As a general rule, Input Tax related to supplies exempt from VAT may not be deducted. Additionally, Input Tax may not be deducted for any expenses incurred that do not relate to the Taxable Person's economic activity (including certain forms of Restricted Expenses such as entertainment services and vehicles), or any other costs related to supplies exempt from VAT.

Input Tax serves as a credit balance included in the Zakat return and is deducted from the VAT imposed on supplies (Output Tax) made during that period. Input Tax may only be deducted if the Taxable Person has a Tax Invoice or customs documents proving the value of the due Tax (or any alternative document proving the amount of Input Tax paid or payable, provided the Authority approves).

8.2 Conditions Related to the Transport Sector

As a general rule, Input Tax related to tax-exempt supplies or related to the Taxable Person's private activities may not be recovered. Input Tax related to supplies falling outside the scope of VAT (such as transport starting from outside the Kingdom) may be deducted if such supply would have been subject to VAT had it been carried out within the Kingdom.(21) Consequently, suppliers may deduct Input Tax related to costs incurred in the course of carrying out those

(21) Article 49 A (c): Transitional Provisions - Implementing Regulations.

supplies in full. However, Input Tax on costs relating to personal purposes or those not incurred as part of the economic activity may not be deducted. Furthermore, there are some forms of Restricted Expenses for which the related Input Tax may not be deducted.(22) For example, the purchase or lease of vehicles available for the private use of employees ("Restricted Vehicle") is considered a private expense, and, therefore, the related Input Tax may not be deducted, even if the vehicle is partially used for purposes of supplies falling within the scope of VAT. As such, Input Tax incurred on fuel used in those Restricted Vehicles, as well as on repair, alteration, maintenance, and similar services, may not be deducted.

8.3 Proportional Deduction of Input Tax

As indicated above, Input Tax related to supplies of the Taxable Person exempt from VAT, such as exempt financial services or exempt residential rental, may not be deducted. If the Taxable Person's supplies include supplies subject to VAT and others exempt from VAT, that person may deduct Input Tax related to the portion subject to VAT. If the Taxable Person incurs general expenses or costs for making supplies subject to VAT and others exempt from Tax, they must, in this case, accurately apportion the expenses and costs to determine the costs related to the portion subject to VAT. Input Tax is determined according to the following provisions.(23)

Input Tax directly related to supplies subject to VAT	**Full deduction**
Input Tax directly related to supplies exempt from VAT	**No deduction allowed**

Proportional deduction is calculated for the values of supplies subject to VAT carried out during a specific year using the following default method:

$$\frac{\text{Amount of value of taxable supplies made by the Taxable Person during the last calendar year}}{\text{Total value of taxable and exempt supplies made by the Taxable Person during the last calendar year}}$$

(22) Detailed List of Restricted Expenditures Listed in Article 50 - Goods and Services Not Considered to Have Been Received Outside the Context of Economic Activity - Implementing Regulations

(23) Article 51 - Proportional Input Tax Deduction - Implementing Regulations

The aforementioned method does not include supplies of Capital Assets made by the Taxable Person, as they would distort the use of Input Tax.

The Authority may agree on alternative methods for calculating the proportional default deduction other than the value of supplies in cases where they better reflect the actual use of the incurred VAT.

8.4 Capital Assets

Capital assets are tangible and intangible assets that form part of the business assets and are designated for long-term use as a business tool or a means of investment, such as means of transport purchased by transport service suppliers. VAT may be deducted in advance based on the intended use at the time of purchase. Taxable Persons must monitor the use of tangible movable Capital Assets and intangible Capital Assets for a period of 6 years.(24) As for real estate, taxpayers mtheir monitor the use of real estate considered long-term Capital Assets over its useful life (10 years) and make annual adjustments to the advance Tax deduction if the actual uses of the assets change from deductible to non-deductible and vice versa. Regarding Capital Assets in the transport sector, they are not assumed to be used for making exempt supplies; therefore, adjustments are not expected to be claimed in many cases. However, the private use of those assets must be recorded, as well as the adjustments made to the use during the useful life of the assets.

For further details and examples, please refer to the Capital Assets Guideline available on the Authority's website **(zatca.gov.sa)**.

(24) Article 52 - Capital Assets - Implementing Regulations

9. Reporting for VAT

9.1 Date of Supply

VAT on the supply of transport services becomes due on the date the goods or services are supplied, the date the tax invoice is issued by the supplier, or the date of partial or total receipt of the consideration for the transport service, whichever is earlier.(25) By way of exception, for continuous transport services involving successive invoicing or payments, the tax becomes due on the payment date specified in the invoice or the date of actual payment, whichever is earlier.(26)

9.2 Residence of the Supplier

Rules regarding the Place of Supply are determined in many cases based on the place of residence of the supplier and the customer. The term "Resident" includes a resident company if established under the Kingdom's regulations or if its center of management is in the Kingdom. If a company or any other legal person is established outside the Kingdom and has a branch, place of business, or any other form of fixed establishment in the Kingdom, this company is considered a resident company within the Kingdom.(27)

9.3 Imposing VAT

When a resident supplier makes a supply, they bear the responsibility for registering for VAT purposes (if necessary) and imposing VAT at the appropriate rate. The supplier must issue a Tax Invoice for each supply on which VAT is imposed. If services are supplied by a non-resident supplier to a resident recipient registered for VAT purposes in the Kingdom, the supplier does not impose VAT, and the recipient bears the responsibility for reporting the VAT (according to the imposed rate) through the Zakat return via the Reverse Charge Mechanism.

---

(25) Article 23(1) - Tax Due Date for Supplies of Goods and Services - Unified VAT Agreement

(26) Article 23(4) - Tax Due Date for Supplies of Goods and Services - Unified VAT Agreement; and Article 20(2) - Date of Supply in Specific Cases - Implementing Regulations

(27) Article 1 - Definitions - Implementing Regulations

For supplies subject to the Standard Rate of VAT (15%), VAT is calculated at a rate of 15% on the total value of the supply. In cases where the supplier receives a single amount of consideration for the supply, VAT is included within the consideration received (calculated as 15/115 of the amount received).

9.4 Issuance of Invoices

The supplier must issue a Tax Invoice for each supply subject to VAT to another person registered for VAT purposes or to any other legal person, or non-taxable person, sole establishment, or any other entity established in the Kingdom under applicable laws, or issue a simplified Tax Invoice if the value of the supply is less than SAR 1,000. Alternatively, a simplified invoice may be issued for supplies made to an end consumer no later than 15 days after the end of the month in which the supply is made. A Tax Invoice must be issued for intra-GCC supplies, exports, and zero-rated services supplied to a non-GCC resident. The Tax Invoice must clearly include certain data and information such as the invoice date, the supplier's Tax Identification Number, the taxable amount, the applicable Tax rate, and the amount of VAT imposed.(28) If different rates are applied to supplies, the value of each item must be specified separately, as well as the VAT applied to that item.

Tax Invoices are not required for supplies falling outside the scope of VAT in the Kingdom of Saudi Arabia.

Example (16): Al-Yasser Company, a Saudi company operating in the transport sector as a logistics provider, contracted with a company in the United Arab Emirates to transport 20 workers in a bus from Abu Dhabi City to the city of Dammam, provide accommodation services for these workers for 2 weeks near the worksite, and provide daily transport services for the workers from their residence to the worksite. The invoice must reflect the following prices:

(28) For further details on the requirements for issuing a tax invoice, refer to Article 53 (5) - Tax Invoices - Implementing Regulations

Service	VAT Rate	Consideration (SAR)	Tax (SAR)	Total (SAR)
International bus transport	0%	2,000	0	2,000
Accommodation	15%	6,000	900	6,900
Daily transport	15%	1,500	225	1,725
Total Due				9,875

All persons subject to the electronic invoicing regulation must issue electronic invoices for all their transactions for which tax invoices are required. Further information regarding Tax Invoice requirements and electronic invoicing is available on the website **zatca.gov.sa**

9.5 Filing of Zakat returns

Every person registered for VAT purposes, or the person authorized to act on their behalf, must file the Zakat return to the Authority for each monthly or quarterly Tax period. The Zakat return serves as a self-assessment by the Taxable Person of the Tax due for that period.

Monthly Tax periods are mandatory for Taxable Persons whose annual revenues exceed SAR 40,000,000, while the standard Tax period for the remaining Taxable Persons is 3 months.

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

Further information regarding the completion of VAT returns can be found in the Simplified Guideline for Filing VAT Returns, available on the Authority's website at **zatca.gov.sa**.

9.6 Record Keeping

All Taxable Persons must maintain appropriate Tax records related to the calculation of VAT for audit purposes. This includes any documents used to determine the VAT due for each transaction and in the Zakat return. This generally includes the following:

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

Records may be kept in paper or electronic form, provided the conditions specified in the Implementing Regulations are met.(29) These records must be available to the Authority upon request. All records must be kept for at least the basic retention period of 6 years, and the minimum retention period extends to 15 years for invoices and records related to Capital Assets.(30).

9.7 Tax Obligations

Every Taxable Person must assess their Tax liability and comply with VAT terms and obligations, including registering for VAT purposes when applicable, accurately calculating the net Tax amount payable, paying the Tax on its due date, as well as maintaining all necessary records and cooperating with the Authority's employees upon request.

If you are uncertain of your Tax obligations, you must contact the Authority through the website **zatca.gov.sa** or other communication means; you may also seek external advice from a qualified consultant.

---

(29) For further details, please refer to Article 66 (3) - Records - Implementing Regulations

(30) Article 66 - Records - Implementing Regulations, and Article 59 - Retention Period for Tax Invoices, Records and Accounting Documents - Unified Agreement for VAT

9.8 Request for an Interpretive Decision (Tax Ruling)

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

9.9 Correction of Previous Errors

If it becomes apparent to the Taxable Person that there is an error or inaccuracy in the amount included in their submitted Zakat return, or their failure to comply with any Tax obligation, the Authority must be notified and the error corrected through an amendment to the Zakat return. In the event that the error is of the type resulting in a Tax difference exceeding a net value of SAR 15,000, the Taxable Person must notify the Authority within 20 days of realizing this error or incorrect value and amend the previous return.(31)

As for small errors resulting in a Tax difference of less than SAR 15,000, the error may be corrected by including that amount-as an increase-to the Net Tax Payable to be reported in the Tax Return submitted to the Authority for the tax period during which the error was discovered.

For more information regarding error correction, you may view the website: **zatca.gov.sa**.

(31) Article 63 - Correction of Declarations - Implementing Regulations

10. Penalties

The Authority may impose penalties or sanctions on taxpayers in relation to violations of the provisions and conditions of the VAT Law and its Implementing Regulations(32).

Non-Field Violations

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

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

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

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

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

First: Increase of the Penalty

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

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

Second: Reduction of the Penalty

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

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

Third: Rules for Determining Taxable Person Compliance

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

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

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

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

Fifth

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

Field Violations

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

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

11. Contact Us

For more information regarding any transaction subject to VAT, please visit the website: **zatca.gov.sa** or contact us at the following number: **19993**.

12. Frequently Asked Questions (FAQs)

1. Will VAT be applied to food purchased on board flights or other trips?

Food provided on board flights is considered within catering supplies and is subject to the Zero Rate if provided on board any international flight. It will be subject to the Standard Rate if provided on board domestic flights.

2. I booked a flight from Riyadh to Jeddah through an electronic website outside the Kingdom of Saudi Arabia. Am I still obligated to pay VAT?

Yes. VAT is applied according to the place where the transport service is provided and not according to the place of residence of the website. It is likely that the website acts as an agent and will be committed to applying VAT.

3. Does VAT apply to booking fees for international flights?

If the airline or transport service provider applies a fee to the booking, this fee will be subject to the Zero Rate because it relates directly to an international transport supply. If a third-party "agent" performs this service and imposes a separate fee, they must apply VAT at the Standard Rate to that fee.

4. Does VAT apply to booking commissions?

Yes, commissions of travel agents in the Kingdom of Saudi Arabia are subject to VAT at the Standard Rate of 15%. Travel service providers must calculate VAT on the total value imposed for transport services, including the commission amount.

5. Will VAT be applied to flights provided for free to customers or employees?

Flights granted to customers or employees for private use will be considered a deemed supply and subject to VAT, provided the value of the flight granted to the customer or employee exceeds the amount of SAR 200 during 1 calendar year, or the amount of SAR 50,000 during 1 calendar year for all customers or employees, based on the fair market value of those services.

6. Can the Zero Rate be applied to maintenance services provided to airlines at airports?

The Zero Rate may be applied to those services if the customer confirms that those services relate to Qualifying Means of Transport used primarily for international transport and in accordance with the requirements set out in the Law and the Regulations.

7. How can an airline certify the application of the Zero Rate to the aircraft?

The airline must prove that the primary purpose of the means is international transport and that the means is used by no less than 75% for international transport purposes. To achieve this condition, you must verify that each aircraft reaches 75% or more of the Simple Average of the total of the following ratios:

1. The ratio of the number of international flights compared to all flights carried out by the aircraft.
2. The ratio of the distance traveled (in miles) for international flights compared to the total distance traveled for all flights carried out by each aircraft.
3. The ratio of the revenue realized from international flights compared to all flights carried out by each aircraft.
4. The ratio of the operating cost for international flights compared to the total operating costs for each aircraft.

These ratios are calculated based on actual data extracted for each aircraft for the previous 12 months for existing aircraft already used by you, or based on planned and expected data for the next 6 months for new aircraft that will be purchased and have not yet been used in the company's operational activities.

8. Does VAT apply to fuel supplied to aircraft and ships?

Yes. VAT may be applied to fuel at the Zero Rate if the customer provides confirmation stating that these ships or aircraft are Qualifying Means of Transport.

9. Must the certificate provided by the airline be reviewed?

No. However, if you have doubts that you are providing those services to a non-qualifying aircraft, you should not apply the Zero Rate. Fines may be imposed or penalties applied to the airline if it provides an incorrect certificate.

10. How will VAT be applied to fees for transport services of goods incoming from outside the Kingdom to the customer's premises in the Kingdom of Saudi Arabia?

VAT does not apply to international transport fees. If an independent supplier provides transport services performed entirely within the Kingdom of Saudi Arabia, such as transport from the domestic port to the customer's premises, this independent supplier must apply VAT.

11. Are storage and handling fees for goods subject to VAT?

Those services can be eligible to be subject to Tax at the Zero Rate if they are linked to the supply of international goods transport services. As for storage and handling fees for goods supplied in relation to the transport of goods imported from outside the Kingdom of Saudi Arabia, they are not subject to VAT in the Kingdom of Saudi Arabia.

12. Will taxi drivers be required to provide a Tax Invoice?

This depends on whether the taxi driver is registered for VAT purposes or affiliated with a person registered for VAT or not. If so, they must issue a Tax Invoice. If not, they have no right to impose VAT and are not required to issue a Tax Invoice.

Appendix: Transport - Summary Table

Note: Please refer to the Guideline for more information regarding the requirements for meeting the conditions for applying the Zero Rate for Qualifying Means of Transport.

Supply Details	Tax Treatment	
	Domestic Transport	International Transport
Transport of goods and passengers	Standard Rate	Zero Rate
Services directly linked and incidental services related to the supply of passenger transport: • Booking fees • Ticket issuance/change fee • Upgrade fees • Bags and baggage fees • Special carrier (pets, etc.) on board the flight • Meal fees • Administrative fees	Standard Rate	Zero Rate
Ancillary services related to the transport of goods or services which: • Are provided with the supply of an international transport service • Are provided in relation to Qualifying Means of Transport at the airport or port	Standard Rate	Zero Rate
Supply or import of Qualifying Means of Transport	Standard Rate	Zero Rate
Supply of all non-qualifying means of transport	Standard Rate	Standard Rate
Repair, maintenance, and conversion of spare parts for Qualifying Means of Transport	Standard Rate	Zero Rate
Repair, maintenance, and conversion of spare parts for non-qualifying means of transport	Standard Rate	Standard Rate



Scan this code to view the last
version and all published documents
Or visit the website zatca.gov.sa