



Guideline on Electronic Commerce under VAT Provisions



The Zakat, Tax and Customs Authority (henceforth 'ZATCA') has issued this Guideline to clarify certain treatments related to the implementation of the statutory provisions in force on the date of its issuance. The content of this Guideline shall not be deemed an amendment to any of the laws and regulations in force in the Kingdom of Saudi Arabia.

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



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1. Introduction

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

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

1.2 The Zakat, Tax and Customs Authority

The Council of Ministers issued Resolution No. (570) dated 22nd Ramadan 1442H/4th May 2021G, mandating the merger of the General Authority of Zakat and Income and the General Customs Authority into a single entity under the name Zakat, Tax and Customs Authority (ZATCA). The Authority is responsible for Zakat collection, tax and customs duties administration, and ensuring the highest level of compliance by taxpayers in accordance with best practices and high efficiency. The Authority also aims to enable the Kingdom to become a global logistics hub by facilitating trade, safeguarding national security, regulating all activities related to customs operations and border ports, and managing them to raise their level to the maximum degree of efficiency, productivity, and competitiveness. This is achieved through the provision of high-quality services with a customer-centric focus and their service in accordance with best practices.

1.3 About this Guideline

This Guideline is directed at all natural and legal persons carrying out an economic activity and subject to VAT. The importance of this Guideline lies in providing further clarification regarding Electronic Commerce activities and activities associated with electronic platforms and portals in the Kingdom.

2. Definition of Key Terms Used in this Guideline

Electronic Marketplace: An electronic marketplace means an electronic or digital platform, or its equivalent, the primary purpose or one of the primary purposes of which is to enable Suppliers to



display their products, whether goods or services, or to provide, make available, or contract for them with Customers benefiting from them⁽¹⁾.

Goods: All types of tangible property (physical assets), including water and all forms of energy, including electricity, gas, lighting, heating, cooling, and air conditioning⁽²⁾.

Supply of Services: Any supply transaction that does not constitute a supply of goods⁽³⁾.

Voucher: A voucher is considered a commercial document where there is an obligation to accept it as consideration or part of the consideration for the supply of goods or services, and where the nature of the goods or services to be supplied or the identity of the Supplier is specified in the voucher or in the related documents⁽⁴⁾.

Face Value Voucher: A voucher issued with a specific monetary value redeemable, as stated on the voucher or in any related document⁽⁵⁾.

Non-Qualifying Voucher: This term is not defined for VAT purposes; however, it is used in this Guideline to describe any document, instrument, or offer that is commercially described as a "voucher" but does not constitute a voucher as defined above.

Resident Person: A person shall be considered resident in a State if they have a place of residence therein⁽⁶⁾.

Non-resident Person: A person shall be considered non-resident in a State if they do not have a place of residence therein⁽⁷⁾.

Agent: This term is not defined for VAT purposes. In this Guideline, an agent means any person who represents another person in their legal transactions.

Agent Acting on Behalf of the Principal: An agent who acts on behalf of the principal in cases where the agency relationship is disclosed to a third party. In this case, the agent may be referred to as the "disclosed agent."

Agent Acting in Their Own Name: The VAT Law provides specific rules concerning cases in which an agent acts in their own name. This includes situations where the taxable person, acting in their own name, supplies or receives goods or services on behalf of another person; for purposes of

(1) Article 47 of the Implementing Regulations of the VAT Law

(2) Article 1, Definitions, Unified Agreement for VAT

(3) Article 7, Definitions, Unified Agreement for VAT

(4) Article 19 3, Issuance or Supply of Vouchers, Implementing Regulations of the VAT

(5) Article 19 4, Issuance or Supply of Vouchers, Implementing Regulations of the VAT

(6) Article 1, Definitions, Unified Agreement for VAT

(7) Article 1, Definitions, Unified Agreement for VAT



applying the Law and the Implementing Regulations, the agent is treated as having supplied or received those goods or services for themselves.

Principal: This term is not defined for VAT purposes. In this Guideline, the principal means the person who is represented by another person (the agent) in their legal transactions.

Deemed Supply: A transaction that does not involve the supply of goods or services for consideration but is considered under the Law to be a supply for VAT purposes. This term is defined in the Unified Agreement for VAT as "anything treated as a supply pursuant to the cases stipulated in Article 8 of the Agreement."⁽⁸⁾

Tax Due Date: The date on which an individual (single) supply of goods or services is made for VAT purposes. In most cases, the tax due date is determined based on the date of supply, the date of issuance of the tax invoice, or the date of receipt of consideration, whether in part or in full, whichever is earlier. It should be noted that the tax due date is entirely distinct from the date on which the taxable person must remit the net tax for the full taxable period.

Consumption and Use of Services: This term is used in the Implementing Regulations to determine the place where the Customer receives the service and the actual utilization of the supplied services provided to them⁽⁹⁾.

Place of Supply: The State or any other location where the supply takes place for VAT purposes in accordance with the rules set forth in the Unified Agreement for VAT, the Law, and its Implementing Regulations.

Economic Activity: An activity carried out on a continuous and regular basis, including commercial, industrial, agricultural, professional, or service activities, or any use of tangible or intangible property, and any other similar activity⁽¹⁰⁾.

Taxable Person: A taxable person in the Kingdom is a person who carries out an economic activity independently with the intention of generating income, and who is registered for VAT purposes in the Kingdom or is deemed required to register for VAT purposes in accordance with the VAT Law and its Implementing Regulations⁽¹¹⁾.

Taxable Supplies: Supplies that are subject to tax in accordance with the provisions of the Unified Agreement for VAT, whether at the standard rate or at zero percent, with the Input Tax related

(8) Article 1, Definitions, Unified Agreement for VAT

(9) Article 1, Definitions, Unified Agreement for VAT

(10) Article 1, Definitions, Unified Agreement for VAT

(11) Article 2, Persons Subject to Tax Obligations or Eligible for Registration in the Kingdom, Implementing Regulations of the VAT



thereto deductible in accordance with the provisions of the Unified Agreement for VAT⁽¹²⁾

Customer: A person who receives goods or services⁽¹³⁾.

Supplier: A person who supplies goods or services⁽¹⁴⁾.

Date of Supply: The date on which tax becomes due for a specific supply in accordance with the rules outlined in the Unified Agreement for VAT, the Law, and its Implementing Regulations, noting that this date may differ from the date on which the goods or services are delivered.

Input Tax: The tax borne by the taxable person in respect of goods or services supplied to them or imported for the purposes of carrying out the economic activity⁽¹⁵⁾.

3. Overview of Electronic Commerce

3.1 What is Electronic Commerce?

Electronic Commerce refers to the process of buying and selling goods or services via a website, electronic platform, social media store, or application, and the transfer of money and data to complete the sale.

Electronic portals and interfaces refer to a website, Electronic Marketplace, forum, or similar application that facilitates the sale of goods or services from a Supplier to a Customer and allows the transaction to be completed through it. The interface or portal acts as an Agent or intermediary.

3.1.1 Forms of Electronic Commerce

The common types of supplies in the context of Electronic Commerce include:

- **Business-to-Consumer (B2C) Supplies:** Supplies from a person registered for VAT purposes to an individual or business not registered for VAT purposes.
- **Business-to-Business (B2B) Supplies:** Supplies from a person registered for VAT purposes to another person registered for VAT purposes.
- **Business-to-Business-to-Consumer (B2B2C) Supplies:** A combination of B2B and B2C supplies, where businesses sell their products to other businesses, which in turn sell them to consumers. This model consists of three parties: the first business (product origin), the

(12) Article 1, Definitions, Unified Agreement for VAT

(13) Article 2, Persons Subject to Tax Obligations or Eligible for Registration in the Kingdom, Implementing Regulations of the VAT

(14) Article 1, Definitions, Unified Agreement for VAT

(15) Article 1, Definitions, Unified Agreement for VAT



intermediary, and the end-user.

- **Direct-to-Consumer (D2C) Supplies:** Direct sales by a brand to the end Customer without the involvement of a retailer, distributor, or wholesaler. Subscription models are the most common in D2C supplies, with sales conducted via social media platforms such as «Instagram», «Facebook», «Snapchat», and others.
- **Consumer-to-Consumer (C2C) Supplies:** The sale of a good or service from one consumer to another, conducted through electronic platforms.
- **Consumer-to-Business (C2B) Supplies:** This occurs when an individual sells their services or products to a business. This model includes influencers who promote a product (to generate interest in the service or product), photographers, consultants, freelance writers, and similar providers.

3.1.2 Examples of Common Supplies

- **Sale of Goods/Physical Products:** Offering a tangible product that can be shipped and marketed online, which can be sold through an Electronic Commerce store or via a third-party website.
- **Sale of Services:** Businesses use a website or application as a sales tool for the services they provide.
- This also includes services that are sold (and delivered) online, such as, by way of example, not limitation, marketing services, travel, and online entertainment services.
- **Sale of Digital Content: Product sales can be divided into two categories:**
 - Downloadable materials (e.g., e-books)
 - Subscriptions and memberships to websites or electronic platforms
- **Transportation Services Delivered via an Application or Electronic Platform** ("On-Demand Transportation Services")

3.2 Electronic Commerce and Registration Requirements

Economic activity may be carried out by both natural and legal persons. The Authority considers a person who regularly supplies goods or services to be engaged in an Economic Activity.

All persons engaged in an Economic Activity and who register for VAT purposes shall be issued a tax identification number by the Authority⁽¹⁶⁾.

(16) Article 53, Tax Identification Number, Unified Agreement for VAT



3.2.1 Mandatory Registration

For Suppliers resident in the Kingdom, registration is mandatory for all persons whose sales or (value of supplies) exceed the "mandatory VAT registration threshold." If a person's total Taxable Supplies exceed, or are expected to exceed, SAR 375,000 over a period of twelve months, that person must register for VAT purposes⁽¹⁷⁾.

Taxable persons who are non-resident in the Kingdom must register for VAT purposes regardless of the value of supplies they make in the Kingdom that are subject to VAT. However, if non-resident Suppliers make supplies to Customers registered for VAT, and those Customers are required to account for the VAT themselves on the received supplies using the Reverse Charge Mechanism, the non-resident Supplier shall have no tax obligations⁽¹⁸⁾.

In practice, any supply of goods or services made in the Kingdom to a Customer not registered for VAT obliges the Supplier to register for tax purposes. In the context of Electronic Commerce, supplies made by taxable non-resident Persons to end consumers (i.e., B2C) create an obligation for non-resident Suppliers to register for VAT in the Kingdom.

Resident Customers in the Kingdom who carry out an Economic Activity may exceed the mandatory registration threshold with respect to goods or services received from non-resident Suppliers. Any supplies that require the Customer to account for VAT themselves under the Reverse Charge Mechanism are included in that Customer's registration threshold calculation.

3.2.2 Voluntary Registration

Any Resident Person in the Kingdom whose Taxable Supplies or taxable expenses exceed SAR 187,500 ("the voluntary registration threshold") over a period of twelve months may voluntarily register for VAT purposes⁽¹⁹⁾.

(17) Article 50, Mandatory Registration, Unified Agreement for VAT

(18) Article 47, Persons Obligated to Pay Tax, Implementing Regulations of the VAT

(19) Article 7, Voluntary Registration, Implementing Regulations of the VAT, and Article 51, Voluntary Registration, Unified Agreement for VAT



3.3 Value Added Tax Registration Certificate

A Resident Taxable Person registered with the Authority is required to display the registration certificate at their principal place of business, branches, and electronic stores, in a manner visible to the public.

4. Electronic Commerce Supplies

4.1 Supplies via Electronic Interfaces and Portals

An electronic interface or portal acts as an intermediary that facilitates communication between sellers of goods and services and buyers. In many cases, the platform can set supply criteria (such as arranging the procedures for delivery of goods and services and establishing other terms and conditions of sale). The intermediary may also assume commercial risks and liabilities arising from the supply (for example, providing a refund to the Customer if they are not satisfied with the goods or services supplied). Generally, the electronic interface or portal acts as a seller of goods or services and may charge a commission or fee for these services.

Accordingly, the electronic interface or portal may act as a Principal or Agent, depending on the details of the relationship between the seller and the buyer, the terms and conditions of sale, and the circumstances. Related parties are responsible for assessing whether the interface or portal is acting as a Principal, Agent, or a person giving instructions to an Agent (as applicable) and for applying the appropriate tax treatment.

An electronic interface or portal participating in a principal supply from the seller to the end customer may, in relation to that supply:

- Act as an Agent with respect to a principal supply of goods or services on behalf of the Principal, or
- Act as a Principal with respect to receiving a supply of goods or services in its own name from the seller and subsequently supplying those goods or services to the end customer.

In some cases, it may be difficult to determine whether a person is acting as a Principal or as an Agent. In such cases, reference must be made to the agreement between the persons and an analysis of the commercial nature of the relationship between them, taking into account all other relevant factors.

The agreed remuneration structure between the parties should not be considered a decisive factor in determining whether a person is acting as an Agent or a Principal. An Agent may earn



an amount considered as a "commission", noting that the term "commission" is often associated with intermediary services. However, the Principal may also agree to earn a commission (which may be a fixed amount, a percentage of the final sale, or a "profit margin" on the underlying sale).

4.1.1 Electronic Interface or Portal Acting in the Name of the Principal ("Declared Agent")

In the case of a declared Agent, the principal supply is made directly from the seller to the end Customer, and the Agent may charge the Principal a specified amount for the work performed on their behalf.

Supply from the Seller to the End Customer:

The principal supply of goods and services is subject to VAT in accordance with the standard rules for direct supply from the Supplier to the Customer.

When the Principal supplies directly to Customers, they remain the person obligated to collect output tax on the supply and to issue a tax invoice (even if the Agent assists in issuing invoices or collection procedures on their behalf). The Agent may issue a tax invoice on behalf of the taxable Principal provided certain conditions are met (please refer to the VAT Invoicing Guideline). In such cases, the Principal is responsible for the accuracy of the information on the tax invoice as well as for the declaration of output tax on the supply (please refer to the Guideline on Agents).

The end customer receives the supply directly from the Principal and is therefore eligible to claim an Input Tax deduction, provided the tax was incurred as part of their Economic Activity in relation to Taxable Supplies (please refer to the Input Tax Deduction Guideline).

The Agent may perform certain tasks to facilitate the sale, such as delivering goods, issuing invoices, or collecting payments, provided the Agent acts in the name of the Principal (and the agency relationship is disclosed to third parties). Accordingly, the completion of these tasks by the Agent does not affect the applicable tax treatment.

Supply from a Declared Agent to the Principal:

The Agent may agree to act in the name of, and on behalf of, the seller or the end customer. The Agent receives a commission or other remuneration for performing these services. This is treated as a separate Supply of Services distinct from the principal supply arranged on behalf of the Principal. For this supply, the Agent acts as the Supplier, and the Principal acts as the Customer.

In all cases, the supply of agency services to a Principal in the Kingdom is subject to VAT at the



standard rate, regardless of whether the principal supply of goods and services is subject to VAT.

Example 1: Mohammed imported goods from China with a value of SAR 100,000 and displayed them on an electronic platform. All products were sold through the electronic platform for SAR 200,000 in Mohammed's name. At the end of the tax period, the electronic platform issued a tax invoice to Mohammed for its commission in the amount of SAR 50,000. Mohammed must declare sales of SAR 200,000 and purchases of SAR 150,000 if the relevant tax conditions are met, or claim Input Tax on purchases of SAR 50,000 only if the customs documentation is not in the Taxable Person's name.

In all cases, Mohammed must retain the tax invoice issued by the electronic platform and the customs documentation issued by Customs in order to preserve his right to Input Tax deduction. The commission must also be reported as sales in the amount of SAR 50,000.

An Agent acting on behalf of a Principal who is not resident in the Kingdom must determine whether the relevant supply qualifies for the zero rate or not. The Implementing Regulations of the Law permit the application of the zero rate to services supplied to a Customer who has no place of residence in the Kingdom, subject to certain conditions being met in this regard.

Example 2: Company "B" is a company resident in Jordan that provides remote computing services to businesses throughout the Middle East. Company "B" has no physical presence in the Kingdom but has a number of VAT-registered Customers in the Kingdom. Company "B" engages an electronic payment agent in the Kingdom to establish a portal that enables the collection of amounts due from Company "B"'s Customers and their transfer in US dollars to Company "B"'s bank account in Jordan, and the electronic payment agent has no obligations toward Company "B"'s Customers.

In this case, the electronic payment agent provides a service from which Company "B" receives the principal benefit in Jordan, while Company "B"'s Customers in the Kingdom receive and benefit from that service only incidentally. Accordingly, the electronic payment agent must apply the zero rate of VAT to its services.

4.1.2 Electronic Interface or Portal Acting in Its Own Name (the "Undisclosed Agent")

The Agent acts in its own name in cases where the agency relationship is not disclosed to the third party, who therefore believes that it is dealing with the Agent as a Principal acting in its own name.

The VAT Law in the Kingdom includes a special rule concerning the application of VAT to an Agent



acting in its own name:

"Where a Taxable Person supplies or receives Goods or Services in its own name on behalf of another person, it shall, for the purposes of applying the Law and the Implementing Regulations, be treated as having supplied or received those Goods or Services in its own

This means that where the Agent acts in its own name, it shall be treated in the same manner as the Principal for VAT purposes:

- The Agent receives a supply of goods or services from the seller (the Agent is treated as the Customer in respect of the purchase).
- The Agent subsequently supplies goods or services to the final customer (the Agent is treated as the Supplier for the onward sale).

VAT shall be applied to each supply separately based on the nature of each supply. In most cases, this will result in VAT being applied at the same rate to both supplies; however, this must be confirmed for each supply, as the circumstances may require different treatment. For example, where an Agent purchases domestic goods on behalf of a non-resident Principal and exports them to the Principal's office outside the GCC, the initial purchase (subject to VAT at 15%) will be treated separately from the subsequent export (subject to VAT at 0%).

In cases where the Agent acts in its own name, it is not customary for the Agent to make an independent supply of agency services. In most cases, the Agent's remuneration is included within the profit margin or price differential between the purchase and the onward supply of goods or services. However, the Agent and the Principal may agree to provide distinct services (separate from and in addition to the main supplies of goods or services).

Example 3: Company "X", a distributor of office supplies, enters into an agreement with Company "Y", a licensed sales agent registered for VAT purposes, to promote and distribute its products to businesses in the Asir region. The agreement stipulates that Company "Y" shall conclude contracts in its own name, but must remit all revenues collected to Company "X", after deducting a commission of 5%.

Company "X" also pays Company "Y" a fixed monthly fee of SAR 10,000 for its services (regardless of whether any sales are achieved). The fixed monthly fee constitutes consideration



for a service that is separate from the principal supply of goods.

Tax Disclosure for Company "X":

1. Deduction of Input Tax incurred on the office supplies.
2. Deduction of Input Tax incurred on the fixed monthly fees (SAR 10,000).

Tax Disclosure for by Company "Y":

1. Issuance of a tax invoice and declaration of output VAT collected from Customers arising from the supply of office supplies, before deduction of the 5% commission.
2. Issuance of a tax invoice and declaration of output VAT arising from the Supply of Services (the fixed monthly fee of SAR 10,000).

4.1.3 Electronic Marketplace or Platform Acting on Behalf of a Non-Resident Supplier

In cases where the supply of goods or services is facilitated electronically in the Kingdom through an electronic platform or marketplace acting as an intermediary for a non-resident Supplier or Suppliers, the electronic platform or marketplace shall be deemed to have purchased the services from the non-resident Suppliers on its own account and to have resupplied them in its own name and on its own account to the Customer benefiting from those services.

The electronic platform or marketplace shall be responsible for collecting and remitting VAT on all Taxable Supplies carried out in the Kingdom through it.

If the electronic intermediary operates on behalf of a non-resident Supplier in the Kingdom, special rules shall apply regarding the provision of electronic services in the Kingdom. In this case, the platform or marketplace shall be deemed to act in its own name as a Principal, unless all of the following conditions apply:

- If it is explicitly stated that the non-resident Supplier or Suppliers are the parties supplying the goods or services in the Kingdom during the supply transaction through the electronic platform or marketplace to the Customer, and this is reflected in the contractual arrangements between all parties to the transaction as well as in the tax invoice and receipt issued to the Customer for the payment of the consideration.
- If the operator of the electronic platform or marketplace acts on behalf of a non-resident Supplier in the Kingdom, it shall be considered to have purchased the services from the non-resident Supplier and to have made a separate supply of the same services to a Customer in the Kingdom.



Electronic platform, gateway, or marketplace acting on behalf of a Resident Supplier not registered for VAT purposes:

In cases where the supply of goods or services is facilitated electronically in the Kingdom through an electronic platform or marketplace acting as an intermediary for one or more Resident Suppliers who are not registered for VAT, the platform or marketplace shall be considered to have purchased the services from the non-registered Resident Suppliers on its own account and to have resupplied them in its own name and on its own account to the Customer benefiting from such goods or services.

The electronic platform or marketplace shall be responsible for collecting and remitting VAT on the Taxable Supplies carried out in the Kingdom through them, unless all of the following apply:

- a. It is explicitly stated that the Resident Supplier(s) not registered for VAT are the ones making the supply in the Kingdom during the transaction facilitated via the electronic platform or marketplace to the Customer, and this is reflected in the contractual arrangements between all parties involved, as well as in the tax invoice and receipt issued to the Customer regarding the payment.
- b. An independent and direct contractual relationship is established between the Resident Supplier(s) not registered for VAT and the Customer benefiting from the supply, in accordance with the applicable laws in the Kingdom, and the Supplier(s) set all terms and conditions related to the supply to the Customer.
- c. The electronic platform or marketplace does not set the terms and conditions for the supply of the services provided through it, does not determine the consideration for such services, does not charge the Customers that consideration, and does not collect payment, handle Customer complaints, or provide any offers or compensation to the Customers in relation to the supply.

4.1.4 Tax Invoice Requirements

The basic rule stipulates that a person registered for VAT, who makes a taxable supply of goods or services, must issue a tax invoice and deliver it to the Customer or recipient of the supply. This requirement applies regardless of whether the goods are sold directly or through an electronic platform or marketplace.

As an exception to the above basic rule, if a VAT-registered Agent makes a supply of goods or services on behalf of the Principal, the Agent may issue a tax invoice for that supply as if the Agent had made the supply. The tax invoice issued by the Agent must include all the information



required under Article 53 of the Implementing Regulations, but it may include the Agent's details instead of the Supplier's - in this case, the invoice must indicate the principal Supplier (including the Supplier's name and tax registration number) somewhere on the invoice, in cases where the Agent is a disclosed agent.

If the Agent is an undisclosed agent, then this Agent is responsible for issuing a tax invoice in their own name.

If the electronic platform or marketplace makes the supply on behalf of a non-resident Supplier or a Resident Supplier not registered for VAT, the responsibility for issuing the tax invoices and reporting the VAT to the Authority lies with the electronic platform or marketplace, without prejudice to the provisions of Article 47 of the Implementing Regulations.

A third party may issue tax invoices for Taxable Supplies provided certain conditions are met, and further information on tax invoice requirements can be found in the VAT Invoicing Guideline.

Example 4: An electronic application provides a service of listing cars in an online auction in return for a percentage of the sale value collected from the seller (the vehicle owner), and entry fees to the auction collected from users wishing to purchase. Upon completion of the sale, the application must issue an invoice to the buyer containing the basic information of a tax invoice as stipulated in Article 53 of the Implementing Regulations. As it is a disclosed agent, it must indicate the seller (the vehicle owner) on the tax invoice. If the seller is registered for VAT, the application must indicate the seller's tax registration number on the invoice and collect the tax on their behalf, and then remit it to them, as the seller is responsible for remitting the tax to the Authority.

In this transaction, the electronic application is responsible only for accounting for VAT on the value of its commission from the sale and the fees collected from Customers for entry to the auction.

4.2 Supply of Goods

The supply of goods in the context of Electronic Commerce includes purchasing goods through an electronic platform such as websites or Electronic Marketplaces. Once the purchase is completed, the goods are then delivered to the Customer in the Kingdom. Arrangements for delivery of the goods are usually made by the Supplier or the electronic platform through which the purchase was made. The VAT treatment depends on the Place of Supply.



4.2.1 Place of Supply

Under the general rules, a supply is treated as taking place in the Kingdom only if the goods are located in the Kingdom at the time the dispatch to the Customer begins. If the goods are outside the Kingdom at the time dispatch begins, the Supplier will not charge VAT on the sale of the goods; instead, VAT will be charged at the time of importation⁽²⁰⁾.

Orders fulfilled from within the Kingdom, i.e., where the goods were located in the Kingdom at the time dispatch began. In this case, the Supplier must charge VAT in the Kingdom.

Orders fulfilled from outside the Kingdom: The Place of Supply of orders fulfilled from outside the GCC States is not in the Kingdom, as any supply of goods made prior to their importation is not subject to VAT on the supply. Nevertheless, VAT must be charged in the Kingdom at the time of importation. Accordingly, VAT is effectively applied in the external market in the same manner as applied in the domestic market.

It is possible in some countries for the local Supplier to apply local VAT or sales tax to sales transactions. The application of any tax on the goods in the country of origin will not affect the tax treatment to be applied upon importation⁽²¹⁾ into the Kingdom.

Orders fulfilled from GCC countries: The movement of goods from GCC countries to the Kingdom will be treated in the same manner as transactions from outside the GCC, prior to the implementation of the electronic services system. Accordingly, if delivery of the goods begins in another GCC country, VAT will not be applied in the Kingdom on the supply; however, it will be imposed upon importation of such goods into the Kingdom⁽²²⁾.

Cases relating to the movement of goods: Depending on the location of the Supplier, the recipient, and the goods, the supply may take any of the following basic forms:

(20) Article 11, Supply of Goods with Transport, Unified VAT Agreement

(21) Article 27 3, Goods sold with transport, Implementing Regulations of the VAT

(22) Article 79 7, Transitional Provisions, Implementing Regulations of the VAT



Statement of the case	From the Supplier to the Customer	Place of Supply	Tax treatment
Electronic goods supplied to the Kingdom (inside the Kingdom)	From a VAT-registered business in the Kingdom to a VAT-registered business in the Kingdom	The Kingdom	VAT is applied by the Supplier resident in the Kingdom
	From a VAT-registered business in the Kingdom to a resident Customer not registered for VAT in the Kingdom	The Kingdom	VAT is applied by the Supplier resident in the Kingdom
	From a VAT-registered business in the Kingdom to a non-resident business or Customer	Outside the Kingdom	Zero-rated export (subject to meeting the export conditions)
	From a person not registered for VAT in the Kingdom to a resident business or Customer in the Kingdom	The Kingdom	VAT is applied if there is tax registration

Statement of the case	From the Supplier to the Customer	Place of Supply	Tax treatment
Electronic goods supplied to the Kingdom from outside the Kingdom	From a non-resident business in the Kingdom to a VAT-registered Customer in the Kingdom	The Kingdom	- In the case of importation, VAT shall be applied upon the import of goods. - In the case of non-importation (i.e., the goods are located within the Kingdom): the Taxable Person resident in the Kingdom shall account for the VAT using the Reverse Charge Mechanism.
	From a non-resident business in the Kingdom to a Customer not registered for VAT in the Kingdom	The Kingdom	- In the case of importation, VAT shall be applied at the time of importing the goods. - In the case of non-importation (i.e., the goods are located within the Kingdom): VAT shall be applied by the non-resident Supplier (please refer to the registration rules).



4.2.2 Supply Date

The actual date of supply of goods shall be:

- In cases of supply of goods without transport or dispatch: the date on which the goods are placed at the disposal of the Customer.
- In cases of supply of goods with transport or dispatch: the date on which the transport or dispatch of the goods commences.

In general, the date of VAT liability is the Date of Supply of the goods or services. However, if a pre-invoice is issued or payment for the supply is made in advance, VAT becomes due on the actual payment date or the invoice date, whichever is earlier⁽²³⁾.

Accordingly, the Supplier must declare VAT in the tax period in which the supply date falls. Similarly, the Customer may reclaim Input Tax (as applicable) in the tax period in which the supply date falls.

4.2.3 Value Added Tax Imposition

The Resident Supplier is, in all cases, obligated to apply VAT to the Customer and include its amount in the tax invoice issued to the Customer⁽²⁴⁾. Please note that invoicing requirements have been discussed in the VAT Invoicing and Record-Keeping Guide. If it is agreed that the sale price does not include VAT, then VAT at a rate of 15% must be added to the agreed price.

Final prices announced to end consumers on websites, electronic platforms, social media stores, or applications must include VAT.

VAT shall be calculated on the basis of 15/115 of the total price inclusive of tax announced to the end consumer.

It is possible that the non-resident Supplier is also the seller of goods fulfilled from within the Kingdom (for example, the non-resident Supplier holds stock in a warehouse owned by a third party located in the Kingdom). In this case, the VAT imposition mechanism will depend on whether the Customer is registered for VAT purposes in the Kingdom or not:

- If the supply is made to a Customer who is an individual or entity not required to register for VAT purposes, the non-resident Supplier must register and apply VAT in the invoices as if they were a Resident Supplier.

(23) Article 23, Tax Due Date for the Supply of Goods and Services, Unified VAT Agreement

(24) Article 25 2, Tax Rate, Unified VAT Agreement



- If the supply is made to a Customer registered for VAT purposes, the Customer must self-account for VAT using the Reverse Charge Mechanism⁽²⁵⁾; therefore, the non-resident Supplier is not allowed to declare VAT on the sales or include VAT in the invoice issued to the Customer.

4.2.4 Special Cases

Presumed supplies for VAT purposes: The general rule for presumed supplies provides that goods and services supplied by the Taxable Person without receiving any consideration (from any person) give rise to a presumed supply by that Taxable Person⁽²⁶⁾. However, the presumed supply is subject to certain exceptions provided that sufficient evidence is presented for verification:

- Input Tax related to the supply has not been previously deducted, as it was considered outside the scope of the Economic Activity.
- Gifts and samples have been provided to Customers in the context of promoting the Economic Activity, provided that the market value per recipient does not exceed SAR 200 per calendar year, and the total value of supplies does not exceed SAR 50,000 per calendar year.
- Supplies have been provided to employees in the context of the Economic Activity, provided that the market value per recipient does not exceed SAR 200 per calendar year, and the total value of supplies does not exceed SAR 50,000 per calendar year.
- Goods have been disposed of due to damage.

It is possible that the supply may include multiple and diverse goods or services provided by the Supplier to the Customer. In many cases, each good or service has an individual value, and these values of the goods or services are added together to calculate the total supply value and the total consideration due.

Notwithstanding the foregoing, there are other cases where multiple items (such as multiple goods or services, or any combination of goods and services) are sold for a single price.

In some cases, a good or service may be described as "free" for promotional purposes; however, this may not reflect the commercial reality. For example, goods or services may be provided together as a secondary part of another principal supply, which is the main objective for the Customer. For instance, "free delivery" may constitute a secondary component of the sale of an expensive piece of furniture. In such a case, the free good or service does not constitute a

(25) Article 41, Customer Obligated to Pay Tax under the Reverse Charge Mechanism, Unified VAT Agreement

(26) Article 8, Presumed Supply, Unified VAT Agreement



separate supply without consideration in itself. Accordingly, the Supplier is not considered to be making a presumed supply.

If the facts indicate that there is no separate supply for delivery services and that the Supplier is making a single supply of the goods delivered to the Customer.

Example 5: A website sells natural honey for SAR 200 per jar and special wooden honey spoons for SAR 50 per spoon. The website offered the following promotional deal:

“With the purchase of any jar of honey, you receive a free wooden spoon.” When a Customer purchases from the website and benefits from the promotional offer for SAR 200 (including the honey and the wooden spoon), the website must account for VAT on the SAR 200 only, which equals SAR 30. The sale of the wooden spoon is not considered a presumed supply because it is linked to another supply for which consideration was received.

Example 6: A website sells natural honey for SAR 200 per jar. The website offered a promotional campaign through a social media influencer as follows:

“Participate in the draw, and winners will receive a free jar of honey.” When a Customer wins the draw and receives the product, the website must account for VAT amounting to SAR 30 for each jar of honey supplied for free, due to the absence of consideration for this supply as stipulated in Article 15 of the Executive Regulations.

Example 7: A website that sells natural honey determines the number of its marketing campaigns to be conducted in 2021 and sets the number of winners in the draws at 40 winners, each winner receiving one jar of honey with a market value of SAR 30. The website also decides to provide free samples at the workplace to employees, with a maximum of 25 jars per calendar year. The total value of the supplies for the calendar year equals SAR 1,950, with a maximum of SAR 30 per recipient. In this case, the website is not required to report VAT on the presumed supplies, as the conditions for the exception are met.

Returned Goods: If goods are returned to the domestic Supplier and the supply is cancelled, the Supplier must adjust the output tax charged and issue a credit note, in accordance with the procedures set out in the VAT Invoicing and Record-Keeping Guideline.

If imported goods are returned to the Supplier at a later time, this does not affect the original taxable treatment arising on importation. ZATCA will not refund VAT paid on the importation of goods that are subsequently returned.

The final importing Customer bears the cost of VAT on the importation of returned goods, and the



recovery of VAT incurred on returned goods is considered a commercial matter between the non-resident Supplier and the Customer. This is without prejudice to cases where a Taxable Person imports goods for the purposes of its taxable Economic Activity, in which case it may deduct Input Tax in its tax return in accordance with the deduction rules under the applicable statutory provisions. Re-exportation of imported goods in the course of Economic Activity is treated as an export of goods and is subject to VAT at the zero rate, subject to meeting the statutory conditions⁽²⁷⁾.

Freight Service Providers: Goods are generally imported on behalf of the seller (consignor) or the recipient (consignee), and the freight forwarder usually pays VAT to Customs on the import on behalf of the importer, and seeks reimbursement as disbursements (in addition to customs duties or other incidental charges incurred) from the importer.

Where the importer is a Taxable Person and imports goods for the purposes of its Economic Activity, it will be required to include import data and VAT paid on importation in its VAT Return. This enables the importer to deduct VAT paid on importation as Input Tax (where the Input Tax deduction requirements are met, as discussed in the Input Tax Deduction Guideline). Note that freight companies are not entitled to deduct VAT paid on shipments imported by them as Input Tax, as they are not considered importers for their Economic Activity.

If the seller of the goods is a non-resident in the Kingdom and is unable to act as the importer, the shipping agent may act as the importer and pay the VAT on imports to ZATCA, to be recovered from the seller or from the Customer upon delivery. The VAT on imports paid by the import representative constitutes an additional cost, and the representative is not entitled to deduct it as Input Tax in its tax return, as it is not related to its Economic Activity.

This is considered a commercial matter to be agreed upon within the terms and conditions of sale of the goods between the seller and the Customer, and in accordance with the terms agreed by the shipping service providers.

If the import representative imports on behalf of a person registered for VAT purposes and that person's Tax Identification Number is provided at the time of importation, that person shall be entitled to deduct the VAT paid in its tax return, subject to meeting the other conditions for deducting Input Tax.

4.3 Supply of Services

Electronic services form part of the broader term defined for VAT purposes as "Telecommunications

(27) Article 32, Export of Goods from the Kingdom, Implementing Regulations of the VAT



Services and Electronic Services". Telecommunications services are closely related to electronic services, as both include the transmission of information to one or more recipients. The Implementing Regulations of the Law have provided a non-exhaustive list of services falling within the definition of this term⁽²⁸⁾:

- a. Any service relating to the broadcasting, transmission, emission, or reception of signals, writing, images, sounds, or information of any nature whatsoever, whether by wire, radio, optical means, or other electromagnetic systems.
- b. The transfer or assignment of the right to use bandwidth for broadcasting, transmission, or reception referred to above.
- c. The provision of, and access to, global information networks.
- d. The provision and supply of audio and audiovisual content for listening or viewing by the public based on scheduled programs carried out by a person with editorial responsibilities.
- e. Live broadcasting and transmission via the Internet.
- f. Supplies of automatically delivered images or texts, such as photographs, screen savers, e-books, and other digital documents or files.
- g. Supplies of music, films, games, and software on demand.
- h. Electronic magazines.
- i. Supplies of websites or website hosting services.
- j. Remote maintenance of software and equipment.
- k. Supplies of software and software updates.
- l. Advertising space on websites and any rights associated with such advertising.

Given that the above list of services is non-exhaustive, this allows for the inclusion of new and similar services within the above definition, particularly those that arise rapidly as a result of the accelerating pace of technological development.

4.3.1 Place of Supply

Special rules apply to determine the Place of Supply of electronic services. In principle, VAT is applied in the country where such services are actually used or enjoyed⁽²⁹⁾.

(28) Article 32, Export of Goods from the Kingdom, Implementing Regulations of the VAT

(29) Article 20, Supply of Telecommunications Services and Electronically Supplied Services, Unified VAT Agreement



From a practical perspective, it is often difficult to determine the place where electronic services are used. However, the VAT Law and its Implementing Regulations provide rules intended to identify the place of actual use or enjoyment of services - Article 24, Telecommunications Services and Electronic Services, Implementing Regulations.

In some cases, an individual Customer must be physically present in a specific location to receive the service. This applies to services that can only be accessed at that location. Where the Customer consumes and benefits from the services at that location, that location is considered the place of actual use or enjoyment of the service.

In other cases, Customers are not required to be present in a specific location to use electronic services, as technological means allow access to most electronic services from multiple locations. For the purposes of determining the Place of Supply of such services, the Customer's usual place of residence is considered the place where the service is used and enjoyed. Accordingly, the usual place of residence is the Place of Supply.

VAT at the rate of 15% applies to all supplies of electronic services made in the Kingdom in accordance with the Place of Supply rules.

For services that are not electronic in nature but are ordered, booked, or arranged through electronic means (for example, hotel bookings or transport services via the internet and ride-hailing services through mobile applications), they are subject to the Place of Supply rules based on the location where the main service is performed.

With respect to supplies of electronic services, there is no difference between the Place of Supply rules applicable to Taxable Persons (business-to-business supplies) and those applicable to non-Taxable Persons (business-to-consumer supplies).

4.3.2 Services Supplied to non-residents in the GCC

As a general principle, the Supply of Services by a Supplier in the Kingdom to a non-resident Customer located outside the territory of the GCC, who benefits from the service outside the GCC territory, is subject to VAT at a zero percent rate.

For the purpose of applying the zero rate, the Supplier must ensure that all criteria outlined in the Executive Regulations are met.

4.3.3 Application of VAT on Electronic Services

In all cases, an electronic services Supplier resident in the Kingdom must charge VAT to the



Customer and include it in the tax invoice issued to the Customer. If it is agreed that the sale price does not include VAT⁽³⁰⁾, then VAT at a rate of 15% must be added to the agreed price.

Where a non-resident Supplier provides electronic services, the VAT imposition mechanism depends on whether the Customer is registered for VAT in the Kingdom or not, as follows:

- If the supply is made to a Customer who is either a natural person or an entity not registered in the Kingdom for VAT purposes, or an entity not required to register for VAT, the non-resident Supplier must register for VAT and apply VAT on the invoice in the same manner as if it were a Resident Supplier.
- If the supply is made to a Customer registered for VAT purposes, the Customer must self-account for VAT using the Reverse Charge Mechanism.

Summary of the Tax Treatment for Various Scenarios Related to the Supply of Electronic Services

Supplier's Place of Residence	Place of Use or Enjoyment	Customer Registration Status	VAT in the Kingdom
The Kingdom	The Kingdom	None	The Supplier applies VAT at a rate of 15%
The Kingdom	Outside the Kingdom	None	No VAT is applied
Outside the Kingdom	The Kingdom	Registered	VAT is applied at a rate of 15% under the Reverse Charge mechanism
Outside the Kingdom	The Kingdom	Not registered	The Supplier must register for VAT and apply VAT at a rate of 15%
Outside the Kingdom	Outside the Kingdom	None	No VAT is applied

Special Cases -Sharing Economy

Land Transport Services and Smart Ride-Hailing Applications

On-demand transport services, under the shared economy model, involve a passenger using the platform provider's application to enter specific details such as their location, destination, and preferred vehicle type before confirming the trip.

The platform provider (usually through predefined algorithms) identifies a suitable authorized

(30) Article 25 2, Tax Rate, Unified VAT Agreement



driver and allows that driver to accept the passenger's requested trip. Once accepted, the driver performs the transport service by picking up the passenger and transporting them to the requested destination.

The company makes the necessary arrangements to provide a private driver to perform the trip in the following cases:

- Where the individual passenger or company holds an account with a company providing taxi services or similar land transport services (including companies operating electronic ride-hailing applications).
- Where transport requests are made through companies.
- Where the company collects the payments.

The companies act as Principals in supplying the transport service, while individual drivers provide their services to the companies.

Example 8: Rami has an account with Company "A", which is licensed to provide transport services in the Kingdom. Rami wishes to travel from central Riyadh to King Khalid International Airport and receives a fare of SAR 84 (inclusive of VAT) from Company "A" through its electronic application. Rami will pay this amount upon completion of the trip.

Company "A" arranges for a driver with a vehicle to perform the transport service and pays the consideration for the service to the driver after deducting a commission of 35% of the trip fare. In this case, Company "A" receives the transport request and is the party obliged to supply the service to the Customer and the contracting party with the Customer. It therefore supplies the transport service through independent drivers (who are regarded as supplying the service to Company "A"), and thus acts as a Principal. The driver operates as an independent service provider and performs the transport services in return for a fee of SAR 63 (65% of the amount collected from the Customer).

In all cases, Company "A" must apply VAT at the rate of 15% to the full value of the supply made to Rami. Where the driver is VAT-registered, the driver must account for the VAT due on the services supplied by him, which form part of the total consideration for the trip, and must issue a tax invoice to Company "A".

Food Delivery Applications

Food delivery services are fast-moving services through which shops, restaurants, or third-party applications provide food to consumers on demand. Orders may be fulfilled through mobile



applications, websites, or by telephone.

Business Model Examples

Platform-to-Consumer Supply Model: Under this model, third-party applications display nearby available restaurants, typically through a website, platform, or mobile application. Consumers can then place orders from these restaurants, and the food is delivered either by the restaurant's driver or the platform's driver.

The platform usually earns a share ranging from 20% to 30% of the order value and any delivery fees that may arise.

Service Aggregation Mode: The platform acts as an intermediary between the Customer and multiple local restaurants and also provides Customer support services on behalf of those restaurants in the event of delivery or order issues, in return for a fee.

Integrated Services Model: Businesses responsible for food delivery perform all related services in-house, including developing the application, employing drivers, and preparing the food. However, Customers cannot dine at these businesses, as their primary purpose is to prepare food for delivery.

Restaurant-to-Consumer Supply Model: The restaurant, from its premises, provides food delivery services through its own website or application or by joining a food delivery platform. The VAT treatment of food delivery services in the Kingdom depends on the relationship between the Supplier, the application (delivery business), and the final Customer.

Food delivery applications provide two types of services:

- Restaurant connectivity services: The application is not considered the Principal in this process, as the restaurant's name is visible to the final consumer and the restaurant retains the freedom to change menus and prices. Accordingly, the application should not report the products supplied from the restaurant to the final consumer as its own purchases.
- Driver connectivity services: The application is considered the Principal in this process and must report the full delivery consideration as revenue in its tax return, where the indicators of acting as Principal are met.
- Where the application purchases the product and resells it at a profit margin, the full amount is subject to VAT, as the product becomes part of the application's inventory, ownership is transferred, and risks are borne by the application. Input Tax may be deducted where the statutory conditions for deduction are met.



Example 9: An application coordinates between the restaurant and the final consumer for the delivery of products valued at SAR 100, in return for a delivery fee of SAR 10, without applying any profit margin on the products. The application recognizes only the delivery fee, and the value of the products is not recognized as revenue.

Example 10: An application coordinates between the store and the final consumer to purchase products for SAR 100 and resell them to the consumer by adding a profit margin of SAR 10, in addition to a delivery fee of SAR 10, resulting in a final value of SAR 120. The application recognizes the full amount, as ownership of the products has transferred to the application and a profit margin has been added.

Travel Agency

Travel agents may act in different capacities in a commercial context. For example, a travel agent may act:

- As a Principal with respect to the purchase of travel rights, accommodation, goods, and related services, and subsequently supply them to the traveler.
- As an Agent with respect to concluding a contract directly enforceable between the traveler and the supplier, charging a separate commission for the services provided.

The application of VAT depends on the specific circumstances of each case and the capacity in which the travel agent acts.

The fee charged by a transport service provider or a travel agent acting as a Principal, for international passenger transport, is subject to VAT at a zero percent rate⁽³¹⁾.

A separate fee charged by a travel agent as a commission for international travel subject to the zero rate is considered a fee for a service distinct from the transport service provided by the transport Supplier; accordingly, this commission is not subject to the zero percent VAT.

Telecommunications Service Providers: Direct Billing via the Telecommunications Service Provider ("Carrier")

Telecommunications service providers may also act as Agents in relation to the supply of electronic services and the facilitation of payment through prepaid recharge card balances. Accordingly, the telecommunications service provider must determine whether it is acting

(31) Article 34, Transport of Goods or Passengers to and from the Kingdom and Related Supplies, Executive Regulations. For further details, please refer to the Transport Sector Guide



in its own name as a Principal or as an Agent in order to apply the appropriate tax treatment. Nevertheless, the collection of payments on behalf of the Supplier does not, in itself, imply that the telecommunications service provider is acting in its own name.

From a practical perspective, a Customer may make a single payment to one Taxable Person for multiple supplies from more than one Supplier. A practical example of this within the telecommunications sector is direct billing via the telecommunications service provider ("Carrier").

Direct billing via the telecommunications service provider ("Carrier") is a payment method that allows users to purchase digital products from third parties by charging the amounts to their phone bills. The telecommunications service provider ("Carrier") acts as an Agent in collecting payments on behalf of the third party, for example, an app store.

Under the arrangements for direct billing via the telecommunications service provider ("Carrier"), the third-party Supplier pays a certain amount to the Carrier for payment processing or collection services. Typically, the value of the services provided by the Carrier to the third-party Supplier is the difference between the payment collected from the Customer and the amount remitted to the third-party Supplier.

For example, a telecommunications provider in the Kingdom allows Customers to pay for mobile application downloads using credit cards. The company sells an application for a specific amount inclusive of VAT, and the application content is provided by a non-resident third party. However, the Customers do not interact with or agree to the terms and conditions of the third-party content provider. The telecommunications provider collects the payments and remits them to the third-party content provider under its own terms and conditions (after deducting a commission from the collected price, exclusive of tax).

In this case, the telecommunications provider acts in its own name as a Principal and is considered the Supplier for VAT purposes. The telecommunications provider is responsible for declaring VAT on the sale of the application to the Customer in its tax return.

Data Center Services

Data centers are facilities that house computing equipment such as servers, routers, and security software, which are used for remote storage, data processing, or distribution of large volumes of data. These centers may be shared, maintained by a single company, and made available to third parties.



In general, most services provided by businesses from a data center, such as bandwidth provision, server capacity, network access services, and similar services, fall within the scope of telecommunications and electronic services. In such cases, the Place of Supply is determined according to the rules outlined previously.

A data center may provide network colocation services, where Customer equipment is installed in the data center, which provides the necessary power to operate the equipment, bandwidth, an Internet address for receiving data, cooling, etc., for the purpose of organizing and properly placing the equipment.

Typically, strict rules apply regarding security, protection, and physical access to the data center as part of the services (Customers may not be allowed physical access to the data center). A specific area of the data center may be allocated to a Customer; however, this is generally not available, as the Customer receives a set of rights as part of the service (which may include a certain allocated space).

The network colocation process grants the Customer a set of rights and services, and therefore the tax treatment of network colocation services depends on the circumstances surrounding the supply and what is supplied in each case.

However, if the predominant/core element of the service is granting the right to use a specific area of the data center (for example, renting an office within the data center to the Customer), this is considered a supply of real estate-related services. Most real estate-related services in the Kingdom are subject to VAT regardless of the country in which the Supplier or Customer resides.

If the network colocation fees include elements that can be used or consumed separately within the Kingdom for purposes other than organizing the equipment and accessing the network, the tax treatment of these elements differs depending on the case and requires analysis, as they constitute a separate supply.

5. Vouchers

5.1. What is a “Qualifying” Voucher?

Vouchers are considered physical or electronic documents that entitle the Customer to redeem/ use them as consideration for goods or services from a Supplier or a group of Suppliers. A Voucher is not considered a form of currency, although it can be exchanged and used as non-cash consideration (often reflecting an equivalent monetary value). Typically, a Voucher has only



a commercial value due to the Supplier's commitment to allow its redemption as consideration for goods and services.

5.2. Vouchers with a Face Value

Vouchers often include equivalent monetary amounts, allowing these amounts to be used as consideration for a supply or for multiple supplies. Vouchers that carry a monetary amount are defined as "vouchers with a face value."

Examples of Vouchers with a face value include gift vouchers, phone cards, and electronic recharge cards.

5.3 Issuance of a Voucher

When a person issues a new Voucher, whether for consideration or free of charge, this is not considered a supply for VAT purposes except in certain cases⁽³²⁾. A Voucher can be issued by the Supplier who will honor it (for example, a Voucher issued by a telecommunications company allowing its use at any of its retail stores or online), or by a third party (for example, an online app store).

If the electronic voucher includes a monetary value, the issuance of an additional value (also known as a "top-up") for that electronic voucher is also considered the issuance of a Voucher for VAT purposes. Examples of this include a recharge card or balance top-up.

As a measure to prevent the misuse of Voucher rules, the Supply of Services arises in any case where the consideration payable for the issuance of a Face Value Voucher exceeds its monetary face value⁽³³⁾. This scenario is not expected to occur in normal commercial practice.

5.4 Supply of a Voucher

The issuance of a Voucher itself does not constitute a supply for VAT purposes, unless the consideration payable for the Face Value Voucher exceeds its nominal value. If the consideration payable exceeds the nominal value, this constitutes a Supply of Services to the extent that the consideration exceeds the nominal value.

Example 11: An online platform purchases game top-up cards with a balance equivalent to USD 24.99 (equivalent to SAR 93) for SAR 85, and then sells them on its website for SAR 93. This transaction is outside the scope of VAT and does not need to be disclosed in the VAT return, nor

(32) Article 19 1, Issuance or Supply of Purchase Vouchers, Executive Regulations of the VAT

(33) Article 19 1, Issuance or Supply of Purchase Vouchers, Executive Regulations of the VAT



does it affect the mandatory registration threshold.

5.5 Redemption of a Voucher for Goods or Services

When Vouchers are redeemed for the supply of goods or services, VAT is calculated on the appropriate consideration for the goods or services supplied, with the Voucher representing a non-cash consideration for that supply.

If the Voucher is a Face Value Voucher, the non-cash consideration is measured by the nominal value used. If the Voucher is not a Face Value Voucher, its value is based on the fair market value of the goods or services supplied.

5.6 Treatment of “Non-Qualifying” Vouchers

Non-qualifying Vouchers are other commercial instruments described as “Vouchers” but do not meet the definition of a Voucher for VAT purposes. A Non-Qualifying Voucher is treated under the standard VAT rules, with VAT calculated on the consideration paid or payable (if any) at the time of issuance or supply of the Non-Qualifying Voucher as a Supply of Services. Upon redemption, the Supplier must account for VAT based on the total amount paid for the supply of goods or services.

6. Deduction of Input Tax

6.1. General Provisions

A VAT registered person may deduct Input VAT charged on goods and services it purchases or receives in the course of carrying on its Economic Activity. Input VAT may be deducted on:

- VAT charged by a VAT-registered Supplier in the KSA;
- VAT self-accounted by the VAT-registered person under the Reverse Charge Mechanism; or
- Import VAT paid to Saudi Customs on imports of goods into the Kingdom.

As a general rule, input VAT, which is related to the taxpayer’s VAT exempted activities, is not deductible as input VAT.

In addition, input VAT may not be deducted on any costs incurred that do not relate to the Economic Activity of the taxable person (including some blocked expenditure types such as entertainment,



sporting or cultural services, catering service, and restricted motor vehicles)⁽³⁴⁾ or on any costs which relate to making exempt supplies.

This input VAT is a credit entered on the VAT return which is offset against the VAT charged on supplies (output VAT) made during that period.

Input VAT may only be deducted where the Taxable Person holds a tax invoice, or customs documents showing the amount of tax due, or any other document showing the amount of input tax paid or due, subject to the approval of the Authority⁽³⁵⁾.

6.2. Input VAT incurred by Agents

An Agent acting in his own name in receiving supplies of goods or services on behalf of a Principal is treated as if he had received those goods or services for himself⁽³⁶⁾. Therefore, an Agent acting in his own name is entitled to deduct input tax on such supplies, provided he holds a Tax Invoice issued in his name and the other criteria for deduction are met.

An Agent acting in the name of his Principal is not entitled to deduct input tax on supplies received in the name of the Principal.

For imports of goods, VAT paid to Saudi Customs is only deductible by the person acting as Importer, where the Importer uses those goods as part of his own taxable activity.

6.3. Input Tax Deduction Requirements

For Taxable Persons to deduct input tax incurred in the KSA, there are a number of requirements to be followed:

1. **The VAT incurred by the Taxable Person Body must relate to a taxable activity:**
If the VAT relates directly to the Taxable Person's Non-Economic Activity then the VAT cannot be reclaimed.
2. **VAT must be correctly charged:** only VAT which is correctly charged on a supply of goods or services in the KSA, by a VAT-registered supplier, is considered to be Input Tax for the Taxable Person as the recipient of that supply. VAT which is not correctly charged to a Taxable Person is not eligible for an Input Tax deduction. An amount which is not KSA VAT, but a corresponding

(34) A detailed list of the blocked expenditures is listed under Article 50 of the Implementing Regulations

(35) Article 49(7), Input Tax Deduction, Implementing Regulations

(36) Article 9, VAT Law



VAT charged in another country, is also not eligible for Input Tax Deduction in the KSA.

3. **Verifying TIN and tax invoice:** The Unified VAT Agreement requires that a Person must hold documents as a condition of Input Tax deduction. A Taxable Person should hold a valid Tax Invoice in order to deduct KSA VAT charged by suppliers as Input Tax⁽³⁷⁾. The Taxable Person should also verify the TIN number of the supplier using the VAT Lookup function made available by ZATCA, to ensure that a VAT-registered supplier has charged the VAT.

In case the VAT supply is self-accounted through the Reverse Charge Mechanism by the Taxable Person, a valid Tax Invoice will in most cases not be issued by the supplier. In order to be eligible for the deduction of Input Tax on such a supply, the Taxable Person should have commercial documents available to evidence the nature of the supply and the consideration payable on the supply, in addition to the corresponding calculation of tax due on the supply.

6.4. Eligibility to Deduct Input Tax

As mentioned above, the right of the Taxable Person to deduct is based on the goods and services being purchased for the purpose of carrying on its Economic Activity in the course of making Taxable Supplies. Conversely, VAT incurred on purchases made outside of a Taxable Person's Economic Activities, or Input Tax which is related to VAT exempted activities is not deductible as Input Tax.

6.4.1. Apportionment between Taxable and Non-Taxable Activities

VAT incurred which relates to a Taxable Person's VAT exempt activities, is not deductible as Input VAT. A Taxable Person as a supplier making both taxable and exempt supplies can only deduct the Input VAT related to the taxable supplies.

The Input VAT available to Taxable Persons who make both exempt and taxable supplies must be determined based on:

- Input VAT exclusively and directly related to the taxable supplies **shall be deductible in full;**
- Input VAT exclusively and directly related to the exempt sales **shall not be deductible;**

(37) Article 53(5), Tax Invoices, Implementing Regulations



- Other input VAT that cannot be directly attributed shall be subject to partial deduction based on apportionment.⁽³⁸⁾

The overhead costs/expenses incurred by the Taxable Person for making both taxable and exempted supplies must be apportioned to most accurately reflect the use of those costs in the taxable portion of the Taxable Person's activities.

A prescribed default method for proportional deduction using the value of taxable supplies made during the year is as follows:

The value of Taxable Supplies made by the Taxable Person in the last calendar year

The total value of Taxable Supplies and Exempt Supplies made by the Taxable Person during the last calendar year.

Details regarding the methods and using an alternative method are covered in the Input Tax Deduction guideline.

7. Tax Compliance Obligations

7.1 Submission of VAT Returns

Every person registered for VAT purposes in the Kingdom, or a person authorized to act on their behalf, must submit a VAT return to the Authority for each monthly or quarterly tax period.

The tax return constitutes a self-assessment of the tax due by the Taxable Person for that period. Monthly tax periods are mandatory for taxpayers whose annual revenues exceed SAR 40 million.

Quarterly tax periods (three months) are mandatory for all persons registered for VAT purposes. The VAT return must be completed, and the net tax 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.

7.2 Record Keeping

All taxpayers registered for VAT purposes, pursuant to the VAT Law and its Implementing

⁽³⁸⁾ Article 51, Proportional deduction of Input Tax, Implementing Regulations



Regulations, 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⁽³⁹⁾.

This generally includes the following:

- Issued and received tax invoices.
- Accounting books and records.
- Contracts or agreements relating to high-value sales and purchase transactions.
- Bank statements and other financial records.
- Import, export, and shipping documents.
- Other documents relating to the calculation of VAT.

Records may be maintained in paper form, and in some cases, electronically, provided that the conditions specified in the Executive Regulations and the e-Invoicing Regulations are met. In all cases, however, the records must be made available to the Authority upon request.

All records must be retained for at least the basic retention period of 6 years. The minimum retention period has been extended to 11 years for invoices and records relating to movable capital assets, and 15 years for invoices and records relating to immovable capital assets.

For more information regarding record-keeping requirements, please refer to the VAT Guide on Tax Invoices and Record Retention.

8. Penalties

The Authority may impose penalties or sanctions on taxpayers in relation to violations of the provisions and conditions of the VAT Law and its Implementing Regulations⁽⁴⁰⁾.

(39) Article 59, Retention Period for Tax Invoices, Records, and Accounting Documents, Unified VAT Agreement, and Article 66, Records, Executive Regulations

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



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 down to 0%.
Failure to submit the tax return within the specified time.	5-25% of the tax for which the return should have been submitted.
Failure to pay VAT within the specified time.	5% of the due tax for each month or part thereof.
Collection of VAT without registration for tax purposes.	A penalty of up to SAR 100,000.

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

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

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, in the event that one or more aggravating factors apply, as follows:

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

Second: Reduction of the Penalty

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

1. The penalty shall be reduced by 5% where the taxable person's compliance record is classified as good.
2. The penalty shall be reduced by 5% where the percentage of the difference between the calculated tax and the due tax, payable or refundable, relating to the total periods subject to amendment, is less than 5% for returns relating to monthly tax periods, or less than 15% for returns relating to quarterly tax periods.
3. The penalty shall be reduced by 10% where the taxable person pays the amount of the



difference between the calculated tax and the due tax payable within 30 days from the assessment decision issued by the Authority.

4. The penalty shall be reduced by 15% where the taxable person is classified as a micro-enterprise. For the purposes of these rules, a micro-enterprise is deemed to exist where the value of its annual taxable revenues does not exceed SAR 3,000,000 during the 12 months preceding the tax period subject to audit and assessment.
5. More than one mitigating factor shall not be combined in relation to the mitigating factors stated above, except for the factors relating to payment of the due tax set out in these rules.

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.

9. Request for an Interpretative Decision

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 the Authority to obtain an Interpretative Decision in accordance with the provisions outlined in the Guideline for Interpretative Decision Requests.



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