VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline

on Imports and Exports under VAT Provision

Second Edition | May 2026

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

The Zakat, Tax and Customs Authority (ZATCA) 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	Remarks
1	2	May 2026	5.5.2	Addition	The update is in accordance with the decision of the Board of Directors of the Zakat, Tax and Customs Authority, Circular No. (3-8-22) dated 07 Rabi' al-Awwal 1444 AH, corresponding to 03 October 2022.	-
2			8.2	Amendment	The update is in accordance with the amendments to the Implemnting Regulations of the Value Added Tax law issued pursuant to Board Resolution No. (01-06-24) dated 17 Jumada Al-Awwal 1446 AH, corresponding to 19 November 2024	-
3			11.1	Amendment	The update is in accordance with the amendments to the Implementing regulations of the Value Added Tax law issued under the Board of Directors' Resolution No. (07-02-21) dated 04 Rabi' al-Akhir 1446 AH corresponding to 09 November 2021.	-
4			11.1	Amendment	Update in accordance with the updated decision regarding the controls, requirements, specifications, and technical and procedural rules necessary for implementing the provisions of the Electronic Invoicing Regulations issued on May 19, 2023.	-
5			11.4	Amendment	Update in accordance with the amendments to the Implementing Regulations of the Value Added Tax System issued pursuant to Board Resolution No. (23-4-1) dated 26 Dhu al-Qi'dah 1444H, corresponding to 15 June 2023.	-

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1. Introduction

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

The Kingdom of Saudi Arabia ratified the Unified VAT Agreement of the Cooperation Council for the Arab States of the Gulf pursuant to Royal Decree No. M/51 dated 3rd Jumada al-Awwal 1438H/1st February 2017G (the "VAT Agreement"). Based on the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia issued the VAT Law pursuant to Royal Decree No. M/113 dated 2nd Dhu al-Qa'dah 1438H/25th July 2017G (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 (currently the Zakat, Tax and Customs Authority) No. 3839 dated 14th Dhu al-Hijjah 1438H/5th September 2017G (the "Implementing Regulations"), as amended by subsequent Board Resolutions.

1.2 Zakat, Tax and Customs Authority

Council of Ministers Resolution No. (570) dated 22nd Ramadan 1442H/4th May 2021G was issued, providing for the merger of the General Authority of Zakat and Tax and the General Customs Authority into a single entity under the name of the Zakat, Tax and Customs Authority.

The Authority undertakes the collection of Zakat and taxes, as well as customs duties, and seeks to achieve the highest levels of compliance among taxpayers in accordance with best practices and with high efficiency. The Authority also aims to enable the Kingdom to become a global logistics hub by facilitating trade, protecting national security, and regulating and managing all activities related to customs operations and customs ports, in a manner that ensures their development to the highest levels of efficiency, productivity, and competitiveness, through the provision of high-quality services with a focus on the customer in accordance with best practices.

1.3 What is VAT?

VAT is an indirect tax that is imposed on the importation and supply of goods and services at each stage of production and distribution, subject to certain exceptions. VAT is imposed in more than 160 countries around the world.

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

- Collect VAT from their customers on each taxable sale at the applicable tax rate; and
- Pay VAT to the suppliers from whom they receive goods or services, if any, on each taxable purchase at the applicable tax rate.

When taxable persons sell goods or provide services, they must charge VAT at a rate of 15% (assuming the standard rate applies to such supplies) in addition to the final selling price.

Taxable persons must account separately for the 15% collected from taxable sales from their revenues in order to remit it subsequently to ZATCA. The VAT collected by taxable persons on their sales is referred to as "Output Tax."

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

1.4 This Guideline

This Guideline is directed to all natural and legal persons who carry on an economic activity and are subject to VAT. The importance of this Guideline lies in providing further clarification with respect to imports of goods and services into the Kingdom, as well as exports of goods and services from the Kingdom.

2. Definitions of the Key Terms Used

1. **ZATCA:** The authority responsible for overseeing and administering all imports of goods into the Kingdom as well as exports of goods from the Kingdom.

The Authority is referred to as "ZATCA," and this term will be used throughout this Guideline[1].

2. **Common Customs Law:** The Common Customs Law of the Cooperation Council for the Arab States of the Gulf, as adopted by ZATCA.

The Implementing Regulations of the Common Customs Law are referred to as the "Customs Regulations[2]. "

3. **Goods:** Defined for VAT purposes as:

"All types of tangible property (physical assets), including water and all forms of energy, including electricity, gas, lighting, heating, cooling, and air conditioning[3]. "

4. **Import of Goods:** Defined as:

"The entry of goods from outside the GCC territory into any Member State in accordance with the provisions of the Common Customs Law[4]. " During the Transitional Period, receipt of goods within the Kingdom from other Member States by a taxable person shall be considered an import into the Kingdom[5].

The transitional rules relating to imports are discussed in detail in Section 9 of this Guideline.

Any transfer of goods into the Kingdom during the Transitional Period shall be considered an import of goods for the purposes of this Guideline.

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(1) Please refer to the official website of the Authority: https://zatca.gov.sa

(2) Customs Laws and Regulations, official website of the Authority

(3) Article 1, Unified VAT Agreement

(4) Article 1, Unified VAT Agreement

(5) Article 79(7), Transitional Provisions, Implementing Regulations

5. **Importer:** Defined for VAT purposes as:

"The person obligated to pay the tax due on importation in accordance with the provisions of the Common Customs Law[6]. "

The importer is defined in the Common Customs Law as:

"The natural or legal person who imports the goods[7]. "

6. **Customs Declaration:** Defined in the Common Customs Law as:

"The declaration submitted by the owner of the goods or their representative, specifying the distinguishing elements of the declared goods and their quantities in detail in accordance with the provisions of this Law[8]. "

7. **Consignor:** Not defined for VAT purposes; however, it is considered a commercial term describing the supplier or any person responsible for transporting the goods to a customer/consignee.

8. **Consignee:** Not defined for VAT purposes; however, it is considered a commercial term describing the recipient to whom the goods are delivered by the supplier/consignor.

9. **Import of Services:** The term is not defined for VAT purposes (the term "import" in the GCC and in the Saudi law relates only to the import of goods). The term "Import of Services" is used in this Guideline to refer to supplies of services received by a person in the Kingdom where the place of supply of the service is the Kingdom and the supplier is non-resident.

10. **Export of Goods:** Defined for VAT purposes as:

"The supply of goods from any Member State to outside the GCC territory in accordance with the provisions of the Common Customs Law[9]. "

Accordingly, the export of goods must include a supply of such goods. The transfer of personal

(6) Article 42, Person Obligated to Pay Tax on Import, Unified VAT Agreement

(7) Article 2(29), Common Customs Law

(8) Article 2(34), Common Customs Law

(9) Article 1, Unified VAT Agreement

goods outside the GCC territory is not considered a supply for VAT purposes, except in cases of Nominal Supply.

During the Transitional Period, a supply of goods involving the transfer of goods from the Kingdom to another Member State shall be considered an export of goods for VAT purposes if the relevant conditions are satisfied. The transitional rules relating to exports are discussed in detail in Section 9 of this Guideline[10].

Any supplies of goods from the Kingdom during the Transitional Period shall be considered exports of goods for the purposes of this Guideline.

11. **Nominal Supply:** Defined for VAT purposes as:

"Everything considered as a supply in accordance with the cases stipulated in Article (8) of this Agreement."

Pursuant to Article 8 of the Unified VAT Agreement, a taxable person shall be deemed to have supplied goods when disposing of goods forming part of their assets in any of the following cases[11]:

- Disposal of goods for purposes other than the economic activity, whether for consideration or without consideration.
- Change of use of goods to make non-taxable supplies.
- Retention of goods after cessation of the economic activity.
- Supply of goods without consideration unless the supply is made in the course of business as samples or low-value gifts in accordance with what is determined by each Member State.

A taxable person shall be deemed to have supplied services in either of the following cases:

- Use of goods forming part of their assets for purposes other than the economic activity.
- Supply of services without consideration.

The provisions relating to deemed supplies above apply only where the taxable person has previously deducted Input Tax relating to such goods or services.

(10) Article 79(7), Transitional Provisions, Implementing Regulations

(11) Article 1, Unified VAT Agreement

12. **Resident:** Defined as follows:

"A person shall be considered resident in a State if they have a place of residence therein[12]. "

A non-resident is defined as follows:

"A person shall be considered non-resident in a State if they do not have a place of residence therein[13]. "

The term "Resident" includes a resident company established in accordance with the Saudi Companies Law, or if its head office is located in the Kingdom.

If a company or other legal person is established outside the Kingdom but has a branch, place of business, or any other form of fixed establishment, it shall be considered resident in the Kingdom[14].

A company or natural person may have an establishment in more than one State and may therefore be considered resident in 2 different States for VAT purposes. For example, an entity may have several branches in several States; in such cases, the branch or establishment most closely connected to the supply of goods or services shall be the place of residence of the legal person for the purpose of determining the place of supply.

13. **Direct Export:** Not defined for VAT purposes; however, For the purposes of this Guideline, it means: "The export of goods where the supplier is responsible for transporting the goods outside the GCC territory (or outside the Kingdom during the Transitional Period)."

14. **Indirect Export:** Not defined for VAT purposes; however, For the purposes of this Guideline, it means: "The export of goods where the customer is responsible for transporting the goods outside the GCC territory (or outside the Kingdom during the Transitional Period)."

15. **Export of Services:** Not defined for VAT purposes.

The term is used in this Guideline to refer to supplies of services made by a supplier in the Kingdom to customers who do not have a place of residence in the GCC territory.

During the Transitional Period, for the purposes of this Guideline, the supply of services to

(12) Article 1, Unified VAT Agreement

(13) Article 1, Unified VAT Agreement

(14) Article 1, Unified VAT Agreement

a person resident in another Member State shall be considered an export of services. The transitional rules relating to the export of services are discussed in Section 9 of this Guideline.

16. **Commercial Terms:** Not defined for VAT purposes. They are the commercial terms and conditions agreed upon in international contracts as determined by the International Chamber of Commerce. They are established to clarify the party responsible for various costs and risks relating to the transportation of goods. One of the commercial terms is denoted by the letters (CIF), meaning "Cost, Insurance and Freight." These terms are indicative but not definitive or conclusive of the legal relationship between the parties.

3. Economic Activity and Registration for VAT Purposes

3.1 Who is a Person Carrying on an Economic Activity?

An economic activity may be carried on by natural persons and legal persons alike. Legal persons (such as companies) shall be considered to be carrying on an economic activity if such persons have a regular activity involving the making of supplies. It should be noted that natural persons may conduct certain activities as part of their economic activity or as part of their private activities. Accordingly, specific rules exist to determine whether a natural person falls within the scope of VAT or not.

Natural and legal persons who carry on an economic activity must register for VAT purposes if required to do so. Such persons must collect VAT applicable to their activities and remit the VAT collected to ZATCA.

3.2 Mandatory VAT Registration

Registration is mandatory for all persons whose annual revenues exceed a specified threshold. If a person's taxable supplies over a period of 12 months exceed SAR 375,000 (the "Mandatory Registration Threshold"), that person must register for VAT purposes[15]. This is subject to the transitional provisions stipulated in the Implementing Regulations relating to the Mandatory Registration Threshold during the Transitional Period.

Taxable supplies do not include the following:

- Exempt supplies, such as exempt financial services or exempt residential rent.
- Supplies that fall outside the scope of VAT in any GCC Member State.
- Proceeds from the sale of capital assets; capital assets are defined as assets allocated for long-term business use[16].

(15) Article 3, Mandatory Registration - Upon Exceeding the Mandatory Registration Threshold, Implementing Regulations

(16) Article 1, Unified VAT Agreement

In specific cases, other provisions apply to mandatory registration:

- Non-resident persons in the Kingdom of Saudi Arabia who are required 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 required to collect and remit VAT[17].

Further information regarding mandatory registration for VAT purposes may be found on the website **zatca.gov.sa**.

3.3 Optional VAT Registration

A resident person in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses exceed SAR 187,500 over a period of 12 months (the "Voluntary Registration Threshold") may apply for voluntary registration for VAT purposes. Voluntary registration for VAT purposes may be preferable if the person wishes to claim a refund of VAT paid on expenses before issuing invoices or making a subsequent supply[18].

Further information regarding voluntary registration for VAT purposes may be found on the website **zatca.gov.sa**.

(17) Article 5(1), Mandatory Registration of Non-Resident Persons Obligated to Pay the Tax, Implementing Regulations

(18) Article 7, Voluntary Registration, Implementing Regulations

4. Import of Goods

4.1 Charging of VAT on Imports

VAT is imposed on imports of goods as a separate event from the supply of such goods.

"Without prejudice to the provisions of Article 2 of the Law, and for the purposes of applying the Agreement and the Law in the Kingdom, Tax shall be imposed on all taxable supplies of goods and services made by any taxable person in the Kingdom in the course of carrying on an economic activity, or on those received by any taxable person in the Kingdom in the course of carrying on an economic activity in cases where the Reverse Charge Mechanism applies, and on the import of goods into the Kingdom[19]. "

Accordingly, VAT is imposed on the import of goods as a separate event, in addition to any Tax imposed on the supply of such goods.

Supplies of goods made before their official customs clearance in the Kingdom are not considered taxable supplies[20]. As for the supply of goods occurring after official customs clearance in the Kingdom, meaning goods located in the Kingdom, such supply is considered to have taken place in the Kingdom and is subject to VAT in the Kingdom[21].

Example (1): An engineering company established in the Kingdom provides technical experts for the maintenance and development of oil refineries. During a visit to one of its customers (an oil refinery in the city of Jeddah), it was determined that specific spare parts needed to be ordered. The customer, the owner of the oil refinery, ordered 5 of the required spare parts to keep in stock. The engineering company ordered the 5 parts from a specialized supplier in the United States. The American supplier agreed to send the parts in accordance with commercial terms under which the supplier bears the costs of insurance and freight for the goods until they arrive

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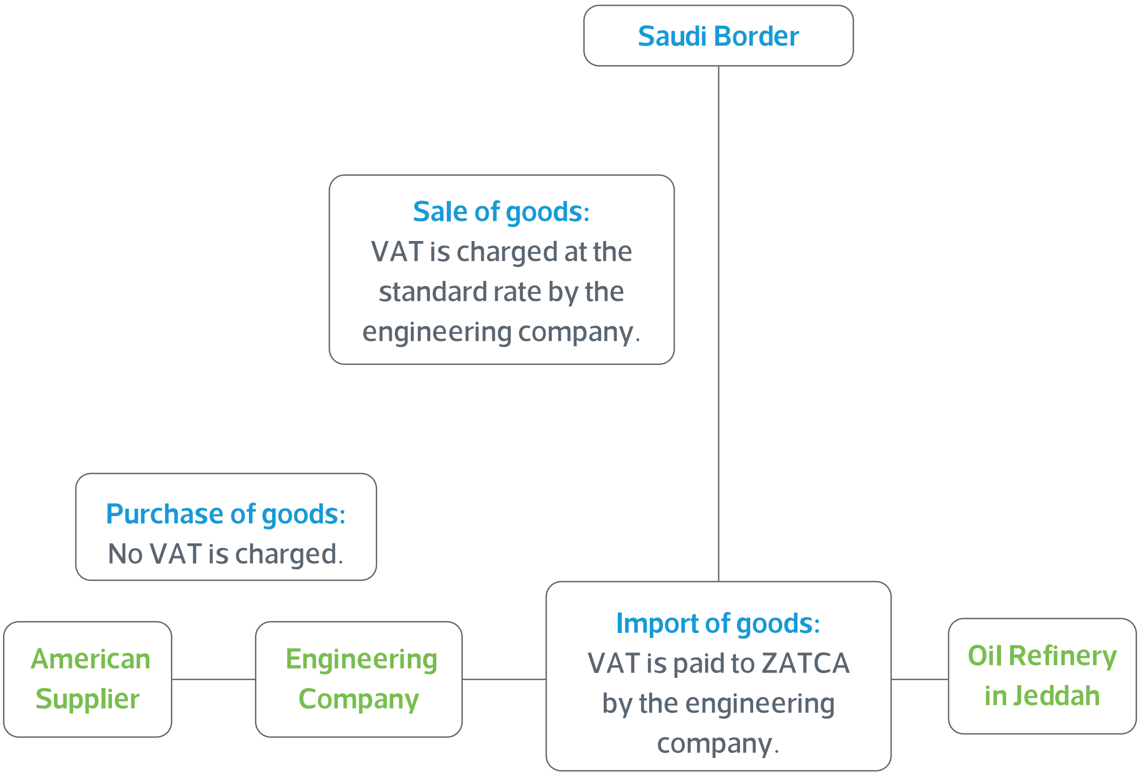
(19) Article 14, Taxable Supplies in the Kingdom, Implementing Regulations

(20) Article 27(3), Goods Sold with Transport, Implementing Regulations

(21) Article 26(1), Goods Located in the Kingdom, Implementing Regulations of the VAT Law; this is subject to specified exceptional cases, such as the exception relating to the place of supply of electricity, which is not subject to standard import procedures

at Jeddah Port. It was also agreed under the contract that ownership and risk would transfer at the port in Jeddah, prior to the engineering company commencing the official import procedures for these parts.

The sale of the goods from the American supplier to the engineering company is not considered a supply made in the Kingdom. VAT is due to ZATCA on the import of these goods based on a value of SAR 600,000 (CIF value for the 5 parts), and VAT on imports at 15% amounts to SAR 90,000. The sale of the stock of these 5 parts to the oil refinery company constitutes a taxable supply of goods (selling price SAR 130,000 per part, excluding VAT). VAT on the sale of these 5 goods amounts to SAR 97,500.



Through the example above, the engineering company pays VAT on its imports of goods. It also charges VAT on the same goods when supplying them within the Kingdom to the customer. With respect to the deduction of Input Tax, the engineering company can deduct the SAR 30,000 paid to ZATCA on its imports. The oil refinery company is also able to deduct the VAT incurred (SAR 32,500) on its purchases of goods provided that they are used in the course of its taxable activity. According to this mechanism, although VAT is imposed twice on the same goods, no additional tax cost arises through the supply chain.

VAT at 15% is imposed on all goods imported into the Kingdom, regardless of the classification of such goods, the customs duty rate applicable to them, or in cases where goods are exempt from customs duties. Exemption from VAT on import of goods applies only to limited cases explained in Section 5 of this Guideline.

4.2 Import Procedures

One of the requirements of the Common Customs Law is that any goods entering or leaving the Kingdom must be declared through a Customs Declaration[22]. This declaration is completed electronically by the supplier or their representative. The supplier must complete the form by providing information relating to the nature of the goods to be imported (such as tariff code, country of origin, and description of the goods). The value of such goods (value of imported goods in SAR) must also be provided. Based on this information, ZATCA calculates the customs duties, Excise Tax, and VAT automatically as part of this Customs Declaration. The Customs Declaration also includes other fees collected by ZATCA on behalf of transport and shipping companies, such as transportation and storage fees. These amounts are also included for the purposes of calculating VAT.

(22) Article 19, Prohibition and Restriction, Common Customs Law

The Tax Identification Number (TIN) of the importer must be disclosed. In most cases, it is inserted automatically in the Customs Declaration. However, in some other cases, it may not be inserted automatically. The importer must update their identity information with ZATCA by providing one of the following IDs:

- Commercial Registration number;
- 700 Code;
- Saudi ID;
- GCC ID.

In all cases, the person importing into the Kingdom must be licensed to carry out an import into the Kingdom of Saudi Arabia.

4.3 Collection of VAT on Imports

For the purpose of customs clearance of goods, the VAT due must be paid in addition to customs duties and other fees stated in the Customs Declaration to ZATCA. The importer may access through the electronic portal of ZATCA, a summary of VAT paid. This summary contains the final report of all VAT amounts paid on imports to ZATCA.

4.4 Valuation of Imports

The Unified VAT Agreement for the GCC States sets out that:

"The value of imported goods shall be the customs value determined in accordance with the Common Customs Law, plus Excise Tax, customs duties and any other charges, excluding VAT.[23]"

Since the customs value is determined in accordance with the rules of the Common Customs Law[24], the primary method for valuation is the transaction value, which is the price paid or payable for goods sold for export from the country of origin (for imports into the GCC States). There are alternative valuation methods in cases where the transaction value cannot be determined.

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(23) Article 28(1), Value of Imported Goods, Unified VAT Agreement

(24) Article 26, Distinguishing Elements of Goods, Common Customs Law

The transaction value is adjusted where there are additions or deductions in price.

The amounts of such additions must include, among others:

- Commissions and brokerage, except buying commissions.
- Costs of transporting imported goods to the port or place of import.
- Costs of loading, unloading, handling, and insurance associated with transporting imported goods to the port or place of import[25].

Accordingly, the Customs Declaration determines the transaction value, which consists of the value of imported goods plus freight and insurance costs to the place of import.

ZATCA calculates the tax due automatically based on the declared value (including incidental service fees imposed by the Authority) in addition to the applicable tax rate on all tariff classifications included in the Customs Declaration.

4.5 Amendment of Customs Declarations

If the importer notices that the VAT payable is incorrect due to an error in the Customs Declaration in classifications or values, they must notify ZATCA before payment.

In some cases, the Customs Declaration must be amended after completion of customs clearance.

If the amendment requires payment of additional VAT or fees, this is carried out through a "Payment Order" issued by ZATCA, including the additional amounts required from the importer.

If the Customs Declaration results in excess payment of VAT, ZATCA will adjust the payable fees and will not refund the excess Tax paid. The taxable person may deduct such excess as Input Tax in the Zakat return.

(25) Article 1, Basis for Determining Value for Customs Purposes

4.5.1 Application of VAT on Charges Collected by ZATCA

All suppliers who provide transportation, shipping, or other services whose fees are collected by ZATCA must determine whether VAT applies to such services. VAT applies to such services separately from the VAT paid or payable on imports. In many cases, such services relating to the transportation of goods that begin outside the Kingdom are outside the scope of VAT in the Kingdom(26). Further information regarding services relating to the transportation of goods is available in the Transport Sector Guideline.

4.5.2 Valuation of Goods Temporarily Exported

Special valuation rules apply in cases where goods are temporarily exported outside the Kingdom to complete manufacturing or for repair abroad and then re-imported into the Kingdom. Upon re-importation into the Kingdom, such goods are subject to tax on the value added to them in accordance with the Common Customs Law(27).

Accordingly, the value for VAT purposes is the same value used for customs duties as shown in the Customs Declaration plus customs duties and any other fees or taxes, excluding VAT. Tax is calculated automatically by ZATCA according to the VAT rate applicable to the customs classification of such goods.

(26) Article 18, Supply of Transport Services for Goods and Passengers, Unified VAT Agreement.

(27) Article 28(2), Value of Imported Goods, Unified VAT Agreement; and Article 105(3), Returned Goods, Common Customs Law.

5. Import of Goods - Special Cases

5.1 Exempt Imports

The following goods are exempt from VAT upon import[28]:

1. Goods subject to VAT at the zero-rate.

"**Import transactions of goods shall be exempt from Tax if the supply of such goods in the final destination State is exempt or subject to VAT at a zero rate.**"

This includes the import of qualified medicines and qualified medical equipment[29]. It also includes the import of qualified metals[30]. For further details, please refer to the Healthcare and Investment Metals Guidelines.

Such goods shall be recorded in the Customs Declaration with a VAT amount of SAR 0.

2. Goods exempt in accordance with the Common Customs Law.

Import transactions of the following goods, exempt from customs duties in accordance with the conditions and controls stipulated in the Common Customs Law, shall be exempt from Tax:

a. Diplomatic exemptions.
b. Military exemptions.
c. Import of personal luggage and used household items brought by citizens residing abroad and foreigners arriving for residence in the country for the first time.
d. Import of returned goods.

(28) Article 38, Exemption upon Import, Unified VAT Agreement.

(29) Article 35, Medicines and Medical Equipment, Implementing Regulations. It should be noted that this list includes "Supplies for Persons with Special Needs" as provided in Article 38(4), Exemption upon Import, Unified VAT Agreement.

(30) Unified VAT Agreement.
Article 36, Supplies of Investment Metals, Implementing Regulations

3. Personal luggage and gifts accompanying travelers in accordance with what is determined by the Member State.

Travelers entering the Kingdom through airport, port, or land border are permitted to bring in goods of a personal and non-commercial nature without payment of any import duties or VAT, provided that the value of such goods does not exceed SAR 3,000, and subject to any other criteria and conditions in the Customs Regulations[31].

These are the only customs duty exemptions that are also exempt from VAT upon import. Any other items exempt from customs duties or subject to customs duties at 0% are generally subject to VAT upon import.

In all cases, exemption from VAT upon import is processed by ZATCA as part of import procedures for customs clearance purposes.

Imports of goods exempt from VAT, as stated above, must not be disclosed in the VAT return.

5.2 Customs Duty Suspension and Temporary Admission

Payment of VAT is suspended in alignment with the suspension of other duties when goods are placed in a customs warehouse or any other suspension arrangement (transit goods or duty-free markets[32]) and are not released for free circulation.

"Tax shall be suspended on import of goods placed under any customs duty suspension arrangement in accordance with the conditions and controls stipulated in the Common Customs Law, and each Member State may require provision of security equivalent to the value of the Tax.[33]**"**

ZATCA administers procedures relating to goods under suspension arrangements. It may require a cash or bank guarantee for the VAT amount that will become due upon release of the goods for

(31) Article 19, Exemption of Personal Baggage and Gifts Accompanying Travelers, Implementing Regulations of the Common Customs Law.

(32) Section 7, Common Customs Law

(33) Article 39, Tax Suspension, Unified VAT Agreement

free circulation (in addition to any guarantees for customs duties[34]). VAT becomes due on the goods upon customs release for free circulation.

Goods may be allowed to enter for free circulation under temporary admission without the collection of customs duties in accordance with specified conditions[35]. This regime is classified as a customs duty suspension arrangement and is administered by ZATCA. VAT is not due while goods are under temporary admission.

5.3 Payment of VAT on Imports through the VAT Return

The Implementing Regulations of the VAT Law allow a taxable person to apply to ZATCA for approval to pay VAT on imports of goods through the VAT return instead of paying directly to ZATCA at the time the goods enter[36]. If the application is approved, VAT shall be included in Field 9 of the VAT return instead of Field 8, which includes VAT paid to ZATCA.

ZATCA may reject the application or revoke existing authorization if it determines that there is a risk of non-payment of VAT or if the taxable person fails to fulfill any outstanding VAT obligations. In general, all taxable persons are required to pay VAT calculated by ZATCA in the Customs Declaration unless approval is granted to account for VAT through the VAT return. The conditions for approval of a taxable person's request to account for VAT on imports through the VAT return include the following:

1. Use of a monthly tax period and import at least once per month.
2. Proof that VAT returns and VAT payments during the previous 12 months, or any shorter period during which the person was considered taxable, were submitted within the statutory deadlines. Also, fulfillment of all other VAT obligations.
3. Provision of evidence demonstrating the financial stability of the taxable person.

The above will apply in accordance with the application mechanism issued by ZATCA.

(34) Article 65(3), Security, Implementing Regulations
(35) Articles 89 to 94, Temporary Admission, Common Customs Law
(36) Article 44, Payment of Tax on Import through the Tax Return, Implementing Regulations

5.4 Import of Goods for Installation and Construction

In certain cases, goods are imported into the Kingdom to be used by the supplier in specific construction works or to be installed at the customer's site. This Section includes cases where the supplier is non-resident.

Supplies falling within a construction project are considered supplies of services, as the value of the goods forms part of that supply. Construction supplies are subject to VAT in the place where the real estate is located(37). For further information regarding real estate services, please refer to the Real Estate Sector Guideline.

In other cases where goods are supplied, and separate charges are imposed for installation services in the Kingdom, both supplies are subject to VAT in the Kingdom (in accordance with the contractual arrangements relating to the supply of goods), in addition to VAT paid on import of goods.

If the supplier is non-resident, VAT imposed on the goods and services shall be accounted for by the taxable customer in the Kingdom under the Reverse Charge Mechanism(38).

In all cases, VAT on goods shall be paid by the importer. The importer has the right to deduct such VAT paid in accordance with the deduction rules (deduction will be discussed in Section 10).

If goods are imported by the customer in relation to a subsequent supply of construction works or installation of goods, the customer is required to pay VAT on imports in order to be able to deduct the VAT.

Example (2): Al-Amjad Saudi Company purchased solar power generation equipment from a Chinese company specialized in supplying solar panels and equipment for an amount of SAR 4,000,000 in order to generate additional energy for its activities. The agreement included that the Chinese company would send a designated person to carry out installation, and that the Chinese company would bear the risks related to any damage to the goods until their installation and full transfer to Al-Amjad Company.

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(37) Article 19(2), Supply of Services Related to Real Estate, Unified VAT Agreement.

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

Al-Amjad Company used its import license to import the equipment. The value of imports according to the Customs Declaration amounted to SAR 3,200,000. This value does not include the value of the installation service.

Al-Amjad's import of equipment is subject to VAT in the amount of SAR 480,000 (15% × SAR 3,200,000). The supply of goods and installation is also subject to VAT.

Since the Chinese company is a non-resident supplier, Al-Amjad Company shall account for VAT under the Reverse Charge Mechanism in the amount of SAR 600,000 (15% × SAR 4,000,000). Both amounts shall be considered Input Tax for Al-Amjad Company as a result of using such inputs in the course of economic activity.

5.5 Importation of Goods by a Non-Taxable Person

Persons who carry out importation but are not Taxable Persons (not registered for VAT purposes) shall be obligated to pay VAT on the importation of goods. The tax shall be imposed by the Authority within the Customs Declaration in accordance with the procedures set out in Section 4.

Where the person carrying out the importation is not licensed by the Authority to conduct the importation process (does not hold an import license), the import procedures may be completed through an agent or representative, and VAT and Customs duties shall be imposed on the importer.

A Non-Taxable Person is not entitled to deduct imposed on imports, without prejudice to any rights of persons eligible to refund the tax paid on imports[39].

5.5.1 Deemed Import by Non-Taxable Persons from GCC States

Notwithstanding the transitional provisions applicable to trade between GCC States set out in Section (9) of this Guideline, certain transfers of goods into the Kingdom by a Non-Taxable Person shall be treated as imports for VAT purposes.

(39) Article 70, Refund of Tax to Designated Persons, Implementing Regulations

“In cases where a legal or natural person resident in the Kingdom and not registered for VAT purposes brings goods with a value exceeding SAR 10,000 into the Kingdom from another Member State and is unable at the time of entry to prove that tax has been paid thereon in that Member State, such person shall be deemed to have imported those goods for the purposes of the Law, and the tax shall become due thereon[40].”

Where the above Article applies, the Authority shall prepare a Customs Declaration and collect VAT in accordance with the ordinary procedures set out in Section 4.

The Authority may approve or reject, at its discretion, the evidence submitted by the person bringing the goods to prove payment of the VAT due in the other State and may apply VAT where sufficient evidence is not provided.

5.5.2 Imports by Government Bodies not registered for VAT

Government Bodies not registered for VAT may submit a request for deferral of payment of VAT due on import of goods instead of paying VAT at the point of entry of goods into KSA[41].

The Authority may authorize such a deferral for up to 30 days from the date of import of goods into KSA (i.e. the date of clearance of the imported goods and their entry into KSA) provided the following conditions are met[42]:

i. The Government Body submits a request using the form prepared by the Authority;

ii. The Government Body imports the goods in its own name;

iii. The Government Body provides a bank guarantee covering the value of VAT due on imported goods before the clearance of the goods in KSA. The guarantee must include an undertaking to pay the value of the tax due on imported goods within thirty days from the date of import. The Government Body may provide an open bank guarantee covering all imports for a full calendar year.

(40) Article 41, Deemed Imported Goods into the Kingdom, Implementing Regulations

(41) Article 43(3), Collection of Tax on Imports on entry to the Kingdom, Implementing Regulations

(42) Board Resolution No. 322-8- dated 071444/03/H corresponding to 03 /10/ 2022

If the Authority approves the request, the approval of deferral of import VAT payment will be applicable to all imported goods from the date of approval for a renewable period of one calendar year.

The Government Bodies that benefit from the deferral of VAT due on import of goods shall not apply for installments or refund of VAT paid on import of goods in any case whatsoever, including where the goods are re-exported outside the KSA.

The Authority may reject or cancel the approval to defer the payment of VAT due on import of goods by a Government Body in the following cases:

i. The Government Body delays the payment of VAT beyond thirty days from the date of import of goods more than three times in 12 consecutive months.

ii. The Government Body delays payment of VAT beyond 120 days from the date of import of goods.

Where an approval is granted to defer the payment of VAT due on import of goods but the payment is not made within the required time period, late payment penalties will apply starting from the day following the end of the approved deferred period until the actual payment date[43].

(43) Article 43, VAT Law

6. Import of Services

6.1 Receipt of Services from a Non-Resident Supplier

There are no specific procedures for the import of services, and VAT is not collected upon the import of services by the Authority, as is the case for the import of goods.

VAT shall be imposed on services supplied in the Kingdom to a Taxable Person by a Non-Resident Supplier in accordance with the Reverse Charge Mechanism.

"If a Taxable Person in a Member State receives Taxable Goods or Services from a person resident in another Member State, he shall be deemed to have supplied such Goods or Services to himself, and such supply shall be subject to tax in accordance with the Reverse Charge Mechanism.

"If a Taxable Person resident in a Member State receives Services from a person not resident in the GCC Territory, he shall be deemed to have supplied such Services to himself, and such supply shall be subject to tax in accordance with the Reverse Charge Mechanism[44]."

A Non-Resident Supplier is a supplier who does not have a Fixed Establishment or place of business in the Kingdom, whereby a Fixed Establishment is the principal place for carrying on business or any other place where human and technical resources are permanently available to enable the person to supply or receive Goods or Services[45].

Examples of "Fixed Establishments" in another State include a legal person having a Head Office in the United Arab Emirates and a branch in Riyadh, or a Saudi company having a registered branch in Bahrain.

Where a person has more than one Fixed Establishment in more than one State, the branch or establishment most closely connected with the supply of Goods or Services shall be regarded as the place of residence of that person for the purpose of determining the place of supply[46].

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(44) Article 9 (2), Receipt of Goods and Services, Unified VAT Agreement

(45) Article 1, Unified VAT Agreement

(46) Article 1, Unified VAT Agreement; and Article 21(4), Taxable Supplier and Customer, Implementing Regulations

Example (3): Dammam Industrial Machinery Company is a company registered for VAT purposes in the Kingdom and has a registered branch in Bahrain. A customer took his vehicle to the Bahrain branch for maintenance. In this case, the Bahrain branch shall be considered the supplier for VAT purposes, and such supply shall not fall within the scope of VAT in the Kingdom.

Example (4): Al Qimmah Security is a UAE company which provides online security for banks. Al Qimmah Security was established in the UAE but has expanded throughout the GCC and also has a registered branch of the same entity in Riyadh. Al Qimmah Security enters into a contract to provide remote monitoring services for a bank in Riyadh. The bank enters into a contract directly with Al Qimmah Security representatives in the UAE, and all services are provided from personnel and equipment in the UAE.

In this case, the branch must report any supplies supplied by the head office (since it is a branch registered in the Kingdom). However, if it is a subsidiary within the Kingdom, determining the place of supply depends on identifying the supplier from among the affiliated companies or the parent company abroad.

6.2 Place of Supply of Services

By applying the general rules for determining the place of supply, most services received by a Taxable Person in the Kingdom shall be considered supplied in the Kingdom for VAT purposes[47].

Certain special rules apply to specific categories of services (special cases) as set out in the Unified Agreement. The five categories below relate to supplies made to Taxable Persons in their capacity as recipients of services[48].

1. **Supply of Transport Services for Goods and Passengers**[49]: The place of supply of such services shall be the place where the services commence. For further details, please refer to the Transport Sector in the Guideline.

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(47) Article 16, Place of Supply of Services between Taxable Persons, Unified VAT Agreement

(48) The application of these special exceptional cases includes the leasing of means of transport to a Non-Taxable Customer, or the supply of services relating to the transport of goods to a Non-Taxable Customer. This Guideline considers only services where the Taxable Person in the Kingdom is the customer who may have tax obligations under the Reverse Charge Mechanism.

(49) Article 18, Supply of Transport Services for Goods and Passengers, Unified VAT Agreement

2. **Supply of Services Related to Real Estate**[50]**:** The place of supply of such services shall be the location of the real estate (the State). Real estate includes any specific area of land and any building or construction works on such land. For further details, please refer to the Real Estate Sector in the Guideline.

3. **Supply of Telecommunications Services and Electronic Services**[51]**:** The place of supply of such services shall be the place of actual use and enjoyment. For many of these services, the place of actual use and enjoyment is linked to the customer's usual place of residence, as determined based on customer information. For further details, please refer to the Digital Economy in the Guideline.

4. **Restaurant, Hotel, and Catering Services**[52]**:** The place of supply of such services shall be the place of actual performance.

5. **Cultural, Artistic, Sporting, Educational, and Entertainment Services**[53]**:** The place of supply of such services shall be the place of actual performance[54], where they involve admission to events held at a specific location or the provision of educational services at a specific place.

Online educational services shall be treated as Electronic Services.

Example (5): Al-Sarh Saudi Company sent a number of its employees to Jordan to perform certain work, and their accommodation was arranged at a hotel in Amman.

The services were performed in Amman, Jordan, and therefore the place of supply for these services is considered outside the scope of VAT in the Kingdom. Consequently, these services are not subject to the reverse charge mechanism by Al-Sarh Company, even though it is a taxable entity in the Kingdom.

Example (6): Al-Salam Company held an event in Riyadh, appointed a speaker, and charged admission fees to visitors. Such services are supplied in the Kingdom for VAT purposes.The

(50) Article 19, Supply of Services Related to Real Estate, Unified VAT Agreement

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

(52) Article 21, Supply of Other Services, Unified VAT Agreement

(53) Article 21, Supply of Other Services, Unified VAT Agreement

(54) Article 25(1), Place of Supply - Other Services, Implementing Regulations

reason this supply is subject to VAT is that the provision of event services is a special case; the place of supply is determined based on the actual location of service performance (which is in Riyadh in this case), regardless of the location of the supplier or the client (recipient).

6.3 Reverse Charge Mechanism

Under the Reverse Charge Mechanism, the recipient shall be deemed to have supplied services to himself. Accordingly, the recipient shall account for Output Tax and, at the same time, deduct the corresponding Input Tax, subject to meeting the conditions for deduction (Section 10 of this Guideline).

The Reverse Charge Mechanism applies only to services that are taxable by nature. The receipt of Exempt Services (such as a loan from a Non-Resident Supplier) shall not constitute a Taxable Supply and shall not be reported in the Tax Return. VAT accounted for under the Reverse Charge Mechanism shall be reported in Field 9 of the Tax Return, whereby the Tax Return form automatically treats the Input Tax as deductible on the supply.

Taxable Persons who are not entitled to fully deduct Input Tax must make the necessary adjustments in Field 9 of the Tax Return.

Although the Reverse Charge Mechanism involves a Nominal Supply of services by the recipient, the recipient is not required to issue a Tax Invoice to himself in respect of this Nominal Supply. However, the recipient must retain the supplier's invoice in their business records to support the calculation of VAT.

Example (7): Al-Safaa Bank (registered for VAT purposes) makes both Taxable and Exempt Supplies and is entitled to deduct 70% of the VAT incurred on non-attributable expenses in accordance with the proportional deduction method it applies. The bank received legal consultancy services from a British law firm, with an invoice amounting to SAR 100,000 (based on the approved exchange rate) dated 21st June 2018 Where the tax was applied at a rate of 5% . In the Tax Return for June, the bank shall enter the amount of SAR 100,000 in Field 9 of the Tax Return as a Taxable Supply under the Reverse Charge Mechanism.

To account for the 30% non-deductible portion of Input Tax, the bank shall enter an amount of SAR 30,000 in the adjustment box in Field 9. VAT payable in the amount of SAR 1,500 shall be calculated in the Tax Return.

		Amount (SAR)	Adjustment (SAR)	VAT Amount (SAR)
9	Taxable Imports Subject to VAT Accounted for through the Reverse Charge Mechanism	100,000	30,000	1,500

6.4 Receipt of Services by a Non-Taxable Person

The receipt of services from a Non-Resident Supplier by a person resident in the Kingdom and not subject to VAT shall not be subject to the Reverse Charge Mechanism.

Where a Non-Resident Supplier provides Taxable Services to a Non-Taxable recipient in the Kingdom, the responsibility shall rest with the Non-Resident Supplier to register and impose the tax for VAT purposes[55].

If a person resident in the Kingdom receives services in the course of carrying out an Economic Activity and is not registered for VAT, such received services shall be included within the Mandatory Registration threshold for tax registration purposes. Accordingly, the recipient may become obligated to register for tax if they receive services from a Non-Resident Supplier[56].

(55) Article 5, Mandatory Registration for Non-Resident Persons Obligated to Pay Tax in the Kingdom, Implementing Regulations

(56) Article 50, Mandatory Registration, Unified VAT Agreement

7. Export of Goods

7.1 Zero-Rated Exports

The export of goods outside the GCC Territory shall be subject to VAT at the rate of 0%[57].

Note: As a transitional measure, any supply involving the transport of goods outside the territory of the Kingdom to another GCC State shall be considered a zero-rated export[58].

Transport outside the GCC States referred to in this Section shall be considered transport outside the Kingdom during the transitional period. These provisions will be discussed in detail in Section 9 of this Guideline.

Under normal circumstances, exportation includes both:

- Completion of the export declaration by the exporter as required and specified under the Unified Customs Law[59]; and
- Transport of the goods outside the GCC Territory.

The export declaration shall be completed, and the goods shall be transported either by the supplier as a direct export or by the customer as an indirect export. This will affect the application of the zero rate on the supply.

In all cases, a supply shall be treated as an export where the supplier and the customer intend that the goods be transported outside the GCC Territory as a result of that supply[60].

The contractual terms (commercial terms), if any, between the parties to the supply may indicate (but not determine conclusively) the party responsible for transport arrangements or the allocation of risks in terms of ownership and location.

(57) Article 34, Supply to Outside the GCC Territory, Unified VAT Agreement

(58) Article 79(7), Transitional Provisions, Implementing Regulations

(59) Article 42, Unified Customs Law

(60) Article 27(1), Goods Sold with Transport, Implementing Regulations

For example:

- A supply was made on a "Delivered at the Supplier's Place" basis, whereby the customer is responsible for collecting the goods from the supplier's premises without a specified destination. Accordingly, the parties have not agreed that the supply includes the transport of goods outside the GCC Territory as a result of the supply.
- A supply was made on a "Delivery's Specified Place" basis whereby the supplier is responsible for arranging shipment and delivering the goods to a specified location outside the GCC Territory, as the parties have agreed that the supply includes the transport of goods outside the GCC Territory as a result of the supply.

7.2 Direct Export

In the case of a direct export, where the supplier arranges the transport outside the GCC Territory and completes the export declaration, the Authority considers that the supplier has exported the goods for VAT purposes.

7.3 Indirect Export

In the case of an indirect export, the supplier does not arrange the transport of the goods outside the GCC Territory. Additional conditions must be met for the supplier conducting an indirect export to apply the zero rate to the supply.

The Authority considers that the zero rate may be applied to an indirect export in the following cases:

- The supplier carries out the customs clearance process and, upon completion of customs clearance, ownership of the goods is transferred to the customer; or
- Where ownership of the goods is transferred prior to the customs clearance process in cases where the customer is Non-Resident, and the customer is required to transport the goods outside the Kingdom as a result of that supply.

The supplier must also confirm, through contractual arrangements, that the goods have in fact been exported to the Non-Resident Customer and do not form part of any other supply in the Kingdom.

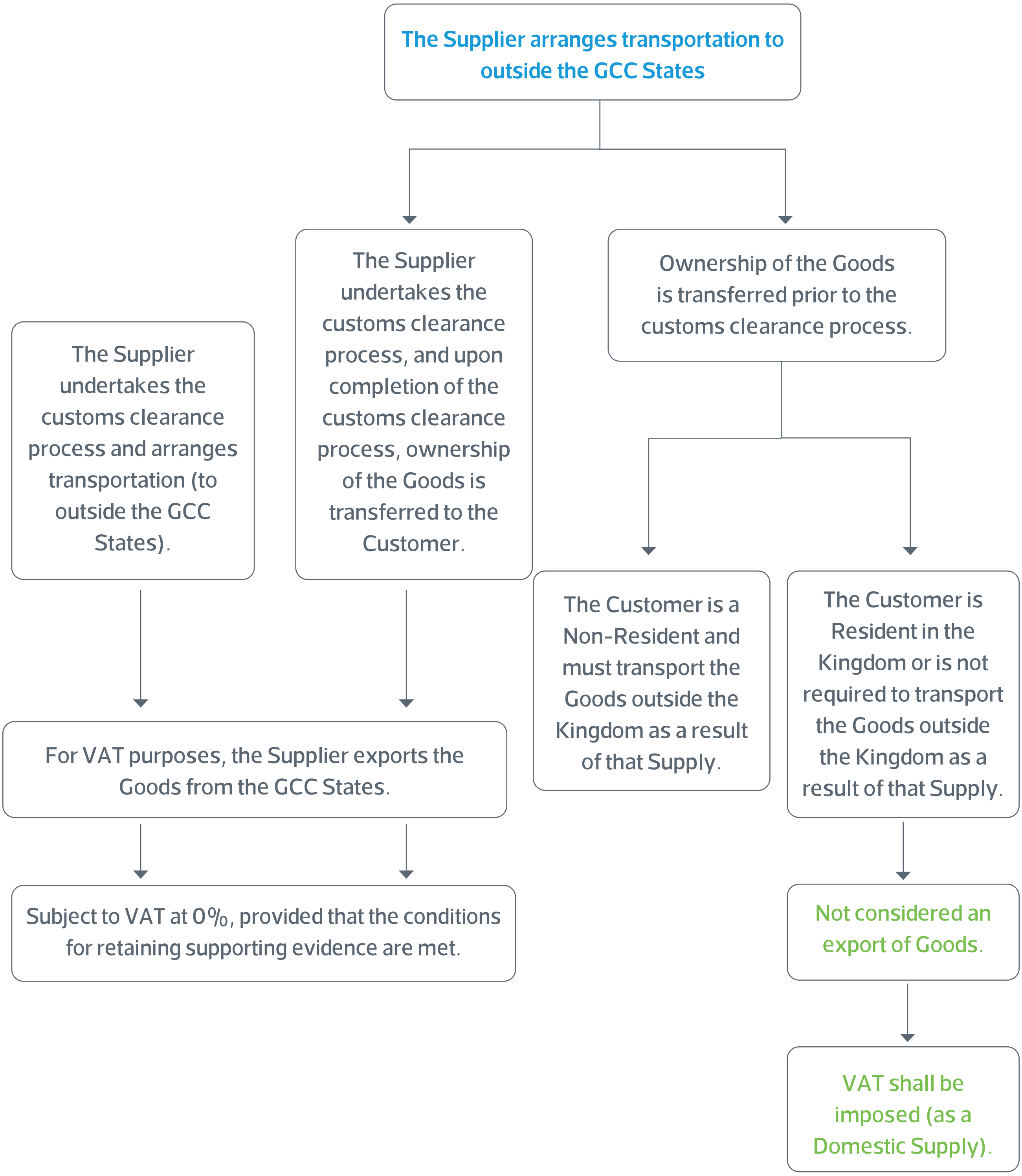
Supporting documentation, as set out in Section 7.4, must be retained to substantiate the application of the zero rate in the event of an audit by the Authority.

If the supplier is not confident that the customer will export the goods, or does not possess sufficient evidence to prove export, VAT at 15% shall be imposed (as a Domestic Supply).

Example (8): A factory in Jeddah (registered for VAT purposes) manufactures plastic panels and contracted with an Egyptian trader to supply 1,000 units for SAR 30,000. The contract provides that the goods shall be collected from the factory's warehouse in Jeddah, but does not specify the method of shipment.

The Egyptian trader did not provide the factory with proof of shipment of the goods outside the GCC Territory as a result of the supply, and the factory does not possess the required supporting documentation. In this case, VAT at 15% shall be imposed on the supply.

Export Flowchart



7.4 Export Proof Documents

The Supplier who carries out the export shall, in all cases, obtain the documents and records that substantiate the transfer of the Goods outside the territory of the GCC States.

The evidence shall include at least the following:

a. Export documents issued by the Authority or by a similar administration in another Member State, evidencing that the Goods have been officially cleared for export on behalf of the Supplier or the Customer in respect of that Supply.
b. Commercial documents showing the identity of the Customer and the place of delivery of the Goods.
c. Transport documents indicating that delivery or receipt of the Goods took place outside the territory of the GCC States[61].

Commercial documents include the invoice, contract, inventory list, or any similar official documents issued to the Customer or issued by the Supplier itself. These documents shall substantiate the transfer of the Goods outside the territory of the GCC States.

Transport documents include the bill of lading or any other documents issued by the carrier, transport company, or any third party that verifies the transportation, where the Goods are shipped through a carrier or third party.

If the Authority rejects the documents submitted by the Supplier, the Supply shall be treated as not constituting an export until the necessary evidence is submitted at a later stage[62].

The Supplier shall obtain the documents within 90 days from the date of Supply. Zero percent VAT may be applied on the date of Supply if it is expected that the evidence will be obtained in a timely manner.

If none of the documents are obtained by that date, the Supplier shall treat the Supply as domestic (i.e., not including an export) and apply VAT at the standard rate.

(61) Article 32(3), Goods Exports from the Kingdom, Implementing Regulations
(62) Article 32(4), Goods Exports from the Kingdom, Implementing Regulations

Example (9): Al-Karamah Company (registered for VAT purposes) agreed to sell wooden panels to a Customer in Turkey (direct export). The Company agreed with an international freight company to collect the panels from the Kingdom on 28th June 2018 and complete the export procedures on behalf of Al-Karamah Company, in addition to shipping the panels to the Customer in Turkey.

The date of Supply shall be the date of commencement of transportation, and Al-Karamah Company shall issue an invoice to the Turkish Customer and apply VAT at the rate of 0%.

Export and shipping documents were received from the freight company on 3rd July 2018, confirming that the Goods were exported outside the territory of the GCC States and that the zero rate was applied.

7.5 Supplies After Customs Clearance

Sales and purchases of certain Supplies of Goods take place while the Goods are on board vessels during international transport. Accordingly, the Supply occurs while the Goods are physically located in the Kingdom (i.e., within territorial waters), despite customs clearance having been completed for such Goods(63).

Any subsequent Supply of the Goods after customs clearance shall also be treated as an export of Goods subject to VAT at the rate of 0%(64).

Example (10): A Saudi oil refining company (registered for VAT purposes) entered into a contract to sell 200,000 litres of hydrocarbon materials to an Italian Customer for a total value of SAR 1,000,000. whereby the Goods would be sold on a CIF basis, and the final destination would be a port in the city of Turin, Italy. Under these arrangements, the Saudi company shall be responsible for customs clearance of the Goods and for the costs and risks relating to transportation to the port. The value of this contract, SAR 1,000,000, represents the export value of the resident exporter (the Saudi company) and is subject to a 0% VAT rate. Accordingly, the Saudi company has exported the Goods for VAT purposes.

(63) Article 1(1), VAT Law

(64) Article 32(5), Goods Exports from the Kingdom, Implementing Regulations

After customs clearance of the Goods was completed and the Goods were loaded onto the vessel, the Italian Customer agreed to sell the same quantity (200,000 litres) to a Swiss trader under the same conditions and at a higher price. The sale transaction and transfer of ownership shall also be subject to VAT at the zero rate.

Kingdom of Saudi Arabia Territory	Saudi territorial waters	Outside the territory of the GCC States
Saudi Refining Company ←	ZACTA ← Italian Customer ← Swiss Customer ←	Place of discharge in Italy
Customs clearance and transportation of the Goods from the territory of the GCC .States are undertaken	Export to the Italian Customer is subject to the .zero-rate VAT The Supply resulting from the export to the .Swiss Customer is subject to the zero-rate VAT	Goods transported from the territory of the GCC States

7.6 Export of Goods Without Sale

For customs purposes, export of Goods (i.e. transfer of Goods outside the Kingdom) includes any person (natural or legal) who transfers Goods from the Kingdom without a sale.

For VAT purposes, the shipment by a person of his own Goods outside the territory of the GCC States shall not be considered a Supply of Goods for consideration, provided that the transfer is carried out in the course of conducting his economic activity. Accordingly, VAT at the rate of zero rate shall not apply in this case, as no Supply exists[65]. Therefore, the transfer of Goods outside the territory of the GCC States shall not be recorded in the taxable person's VAT Return.

(65) Goods Supplies may be treated as Deemed Supplies in cases where the taxable person transfers Goods outside the territory of the GCC States for use in activities other than his economic activity.

7.7 Special Cases

7.1.1 Supplies Under Customs Suspension Status

Supplies of Goods under customs suspension status in accordance with the Unified Customs Law (customs warehouse, free zone, or transit) shall be subject to VAT at the rate of zero rate[(66)]. The Supplier shall retain sufficient evidence regarding the location of such Goods at the time of Supply to apply the zero rate[(67)].

Supplies involving the transfer of Goods from domestic circulation in the Kingdom to a free zone shall also be subject to the zero rate (provided that the transfer is accepted in accordance with the procedures of the Authority).

7.2.2 Re-Export of Imported Goods

VAT at the rate of zero rate shall also apply in the following case:

"Re-export of transferred Goods that were temporarily imported into the territory of the GCC States for repair, restoration, transformation, or processing, and the services added to such Goods[(68)]."

The customs procedures and customs declaration for re-export operations differ from the basic procedures for exporting Goods of Saudi origin[(69)].

For VAT purposes, the conditions and requirements for applying the zero rate to exports shall also apply to re-exports.

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(66) Article 34, Supply to Outside the Territory of the GCC States, Unified VAT Agreement
(67) Article 32(7), Goods Exports from the Kingdom, Implementing Regulations
(68) Article 34, Supply to Outside the Territory of the GCC States, Unified VAT Agreement
(69) Articles 9 to 18, Principles for the Application of Customs Tariff, Unified Customs Law

8. Exported Services

Note: Pursuant to the transitional provisions, the Supply of Services provided to a recipient in a Member State that does not apply its domestic VAT system or any Member State of the GCC before the implementation of the electronic system shall be treated as an export of services subject to VAT at the zero rate, subject to certain criteria(70). This is explained in detail in Section 9 of this Guideline. For the purposes of this Chapter, the applicable cases relating to the Supply of Services to a non-resident recipient in a Member State include cases where Services are provided to a recipient in another Member State during the transitional period.

8.1 Place of Supply of Services

VAT in the Kingdom applies only to Services whose place of supply is in the Kingdom, in accordance with the rules for determining the place of supply. The first step in applying VAT to imported Services is determining the State in which the place of supply is located. The general rule provides that all Supplies of Services made by a person resident in the Kingdom within the scope of VAT in the Kingdom:

"The place of supply of Services carried out by a taxable supplier shall be the place of residence of the supplier.(71)"

There are exceptions with respect to Supplies made to taxable customers and for specific types of Services (special exceptional cases).

8.1.1 Supplies Made to a Taxable Customer

The place of supply for Services provided to a taxable customer in a Member State shall be in that State (except in special exceptional cases). A customer shall be considered a taxable customer where such person is registered for VAT purposes in the Member State in which his place of residence is located at the date of the Supply, or where he is required to register therein(72).

(70) Article 79(6), Transitional Provisions, Implementing Regulations
(71) Article 15: Unified VAT Agreement
(72) Article 21: Implementing Regulations

During the transitional phase of the VAT system implementation, this exception applies only to Supplies made to persons registered under the VAT system of a Member State that has implemented its domestic tax system and activated electronic services with the Kingdom before or at the date of the Supply. As for customers registered for VAT or similar taxes outside the GCC States, they shall not be considered taxable customers.

Example (11): A lawyer in the Kingdom provides legal advisory services related to Saudi regulations to a Customer in the United Kingdom who is registered for VAT purposes in the United Kingdom and does not have a fixed establishment or VAT registration within the territory of the GCC States. Accordingly, the Services are not considered to be provided to a registered customer and are therefore not subject to VAT in the Kingdom. Nevertheless, pursuant to the provisions governing the export of services, the Supply of such Services may be subject to VAT at the zero rate.

8.1.2 Special Exceptional Cases

There are exceptions for certain types of Supplies (special cases) as outlined in Section 6.2 of this Guideline. These exceptions are applied in a manner similar to cases where Services are provided by a Saudi Supplier to a non-resident Customer.

8.2 Application of the Zero Rate to Services Provided to Non-Residents in the GCC States

The Supply of Services by a Supplier registered in the Kingdom to a Customer who is non-resident in the GCC States and who benefits from the Service outside the territory of the GCC States shall be deemed, by default, subject to VAT at the zero rate[73].

(73) Article 34, Supply to Outside the Territory of the GCC States, Unified VAT Agreement

For the purposes of applying the zero rate, the Supplier must ensure compliance with the criteria stipulated in the Implementing Regulations[74]:

a. **If the place of supply of the Service is located in any Member State pursuant to the "Special Cases[75]" set out in the Agreement:** this does not include Services supplied separately from Services whose place of supply is located in any Member State according to any of those Special Cases and which may be directly related thereto (as referenced in Section 6.2 of this Guideline).

Example (12): A company in India contracts with a hotel in the Kingdom to provide accommodation for its employees. The Supply of hotel services constitutes a Special Case for the purposes of determining the place of supply and is considered to have occurred at the place where the Service is performed, namely in the Kingdom. Accordingly, the zero rate does not apply to this Service due to its classification as a Special Case, and the hotel shall impose VAT in the Kingdom at the rate of 15%.

b. **If the Customer Is Resident in Any Member State:** in general and in practice, the Authority expects that the issuance of an invoice or any other correspondence to an address outside the GCC States satisfies this requirement. However, if publicly available information indicates that the recipient has an office or branch within the GCC States, further investigation shall be conducted.

Example (13): A German engineering company has a branch in the Kingdom, with an office, employees, and a commercial registration therein. The head office (in Germany) requested tax advisory services in the Kingdom from an accounting firm established in the Kingdom. Since the Supplier is aware that this company has a branch in the Kingdom, it cannot apply the zero rate to the invoices issued. VAT shall therefore be imposed on the invoices issued by the firm at the rate of 15%.

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(74) Article 33: Services Supplied to Non-Residents of the GCC States, Implementing Regulations

(75) Articles 17, 18, 19, 20, 21 (Rental of Means of Transport; Supply of Transportation Services for Goods and Passengers; Supply of Services Related to Real Estate; Supply of Telecommunications Services and Electronic Services), Unified VAT Agreement

c. **If the Customer or Any Other Person Directly Benefits from the Services While Present in a Member State and Such Other Person Is Not Entitled to Full Input VAT Recovery:** a non-resident Customer who does not have an establishment in the GCC States may have employees or other representatives temporarily present in the Kingdom who benefit from the Service in the Kingdom. In such cases, the zero rate shall not apply. This condition is interpreted narrowly, limited to benefits provided directly by the Supplier to the Customer or to another person.

Pursuant to the facts set out in Example (15):

In this case, the German company has a subsidiary in the Kingdom that requires assistance in preparing its tax return. The German company contracted an accounting firm in Saudi Arabia to assist in preparing the tax return. The accounting firm provides assistance directly to the subsidiary's team, while the German company contracts the accounting firm to issue instructions to it. The benefit of the Services is provided directly to a person in the Kingdom; therefore, the zero rate does not apply to the invoice issued to the German company.

Example (14): A natural person resident in Egypt (non-resident Customer) visits a currency exchange office at Riyadh Airport during a business trip to the Kingdom to exchange Egyptian pounds into Saudi riyals. The currency exchange office charges a commission to the non-resident Customer. The currency exchange service is deemed to have been performed in the Kingdom. Accordingly, the currency exchange office shall impose VAT on the commission at the applicable rate.

d. **If the Services Are Performed on Tangible Goods Located in a Member State During the Supply:** this includes any Services that primarily affect tangible Goods or property as a key component of the Service.

Example (15): A logistics service provider charges a Korean Supplier of electronic Goods for storage and distribution services relating to the Goods located in the Kingdom. The place of supply for these services related to tangible Goods is deemed to be in the Kingdom. The zero rate does not apply to this Supply, and the logistics service provider shall impose VAT in the Kingdom at the rate of 15% on the Services provided.

For purposes of interpreting these provisions, the Authority considers that the Service has been utilized within the territory of the GCC States and that the zero rate cannot be applied in the following cases:

- When the non-resident (through an employee or another person present in the Kingdom) receives part of the Service while present in the Kingdom;
- When the Service relates to tangible Goods located in the Kingdom owned by the non-resident;
- When the Service is provided directly for the benefit of another person in the Kingdom.

Example (16): A Saudi insurance company in the Kingdom enters into a reinsurance contract with a third party, (non- resident reinsurance provider established in Switzerland). Under the reinsurance contract, the Saudi insurance company is required to pay an annual insurance premium for risk coverage.

Separately, the Saudi insurance company charged a commission to the Swiss company in consideration for sales activities. The commission is considered consideration for services provided by the Saudi company. The services provided by the Saudi company were directly provided to the non-resident reinsurance provider, and there is no use of the service by any person in the Kingdom. The underlying insurance contract does not affect the application of the zero percent rate to the commission.

8.3 Further Examples

This table is intended to illustrate the application of the principles above - it is not intended to be an exhaustive list.

Standard-rated		Zero-rated
To a non-resident person in the GCC, provided that the tangible goods are located outside the Kingdom/GCC	In all cases where tangible goods located inside the Kingdom/GCC member states are leased	Leasing of tangible goods
Lease of immovable property	In all cases where the property is located in the Kingdom, except for an exempted residential lease (please refer to the Guideline for the Application of VAT in the Real Estate Sector)	The zero percent rate cannot be applied - (special cases stipulated in the Agreement)
Provision of intangible assets/intellectual property	N/A	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/GCC
Physical work on goods (repair, alteration)	In all cases where the goods are located in the Kingdom	To a non-resident person in the GCC, provided that the tangible goods are located outside the Kingdom/GCC
Storage of goods	In all cases where the goods are located in the Kingdom	To a non-resident person in the GCC, provided that the tangible goods are located outside the Kingdom/GCC

Testing services relating to goods	In all cases where the goods are located in the Kingdom	The zero percent rate may be applied (in accordance with other separate provisions) where the service is ancillary to international transport services and is supplied together with such services (please refer to the Guideline for the Application of VAT in the Transport Sector)
Financial services	Where the customer or the direct recipient receives services in the Kingdom/GCC (e.g., currency exchange at an exchange office), or where tangible assets in the Kingdom/GCC are financed (please refer to the Guideline for the Application of VAT in the Financial Services Sector)	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/ GCC
Insurance services	Where the services are related to the insured person or a physical asset in the Kingdom/GCC, special cases may apply for real estate or transport insurance	The zero percent rate may be applied provided that the recipient does not have a place of residence in the Kingdom/GCC or the services are not related to an insured person/asset in the Kingdom/ GCC (e.g., reinsurance of a portfolio of risks)

Sales commission	Need to examine the exact nature of services (e.g., standard rate if commission is paid for any services involving physical handling of goods in the Kingdom)	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/ GCC
Intermediary fees	N/A	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/ GCC
Advertising services	In cases where the customer or direct recipient (such as an affiliate supplying goods or services in the Kingdom) benefits from advertising services in the Kingdom/ GCC	The zero percent rate may be applied provided that the recipient does not have a place of residence in the Kingdom/GCC and does not make any supplies from the Kingdom/GCC
Market research	In the case where a person receives the direct benefit of the services inside the Kingdom	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/ GCC
Consultancy/advisory services	In the case where a person receives the services whilst in the Kingdom/GCC member states (e.g., whilst carrying on a project in the Kingdom)	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/ GCC

Administration services	Need to examine the nature of the services to determine any use within the Kingdom/ GCC member states	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/ GCC
Management and supervisory services	Need to examine the nature of the services to determine any use within the Kingdom/ GCC member states	The zero percent rate may be applied in most cases, provided that the recipient does not have a place of residence in the Kingdom/ GCC
Recharge/onwards charge of costs	Need to examine the nature of the services to determine any use within the Kingdom/ GCC member states	
Electronic services	In case of actual use inside the Kingdom or where the customer's place of residence is in the Kingdom (Article 24 of the Implementing Regulations) (special cases stipulated in the Agreement), Services provided to non-residents are often outside the scope of VAT.	The zero percent rate cannot be applied- (special cases stipulated in the Agreement)
Services provided directly to an individual	If a person receives services in the Kingdom/ GCC member states (even if another person contracts with the supplier for the provision of services)	The zero percent rate cannot be applied

Education services	The standard rate applies to educational services provided in the Kingdom.	The zero percent rate cannot be applied (special cases stipulated in the Agreement). Note: Remote learning services may fall under Electronic Services.
Transport services	The standard rate applies if the place of supply is in the Kingdom and (separately) in cases where the zero percent rate cannot be applied on the basis that they are services related to international transport.	The zero percent rate may be applied, or the supply may be outside the scope of tax in accordance with special provisions. The zero percent rate cannot be applied to non-resident persons - (special cases stipulated in the Agreement). Note: Under other provisions, transport services may fall outside the scope of VAT or may be subject to the zero percent rate (please refer to the Guideline for the Application of VAT in the Transport Sector).

9. Transitional Provisions

The Unified VAT Agreement specifies the rules for determining the place of supplies made between GCC States on the basis that all GCC States implement their respective tax systems, and that a mechanism for the exchange of information is applied between such States. Transitional rules apply to ensure the appropriate application of VAT in the transitional period, during which all GCC States, other than the Kingdom, are treated as outside the GCC. This applies until Agreement measures are implemented in full, including the introduction of an Electronic Services System.

9.1 Import of Goods from GCC States

The Implementing Regulations set out the rules to deem movements from other Member States to be imports.

"Prior to the introduction of the Electronic Services System in all Member States:

A. When a Taxable Person who receives Goods into the Kingdom from another Member State shall be deemed to have imported the Goods into the Kingdom, and Tax will be collected in accordance with the provisions for other imports ."

The procedure for the filing of customs declarations and collection of VAT by ZATCA is the same as for the import of goods from outside of GCC territory.

Example (17): The owners of ABC Co, a small trading company based in Al Khobar, visit Bahrain to purchase electronic goods in the market. They return with a van of goods purchased for commercial resale. The owners must declare these goods to ZATCA at the land border and complete a customs declaration of the goods being imported into the Kingdom, in line with the requirements of ZATCA[76].

Following inspection of the goods by ZATCA, the VAT payable on the import of goods is calculated and payable before the goods are released to free circulation in the Kingdom.

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

The transitional rules apply until the Electronic Services System[77] is implemented across all Member States. This will be formally announced by way of an Order made by ZATCA, after which, the transitional rules will cease to apply and VAT will be applied based on the rules for intra- GCC trade set out in the Unified VAT Agreement.

Summary: Goods supplied to a Customer in the Kingdom		
Goods shipped from:	**Transitional treatment**	**Treatment following the introduction of the Electronic Services System**
The Kingdom	VAT is charged in the Kingdom	VAT is charged in the Kingdom
Other GCC state	Import: VAT paid to ZATCA by the importer	Supply to a Taxable Customer: The customer accounts for VAT under the Reverse Charge Mechanism
		Supply to a Non-Taxable Customer: VAT is not charged in the Kingdom (except where the supplier is registered or required to be registered for VAT in the Kingdom)
Non-GCC state	Import: VAT paid to ZATCA by the importer	Import: VAT paid to ZATCA by importer

9.2 Export of Goods to GCC States

The following transitional rules apply where goods are moved from the Kingdom to another GCC Member State.

"Prior to the introduction of the Electronic Services System in all Member States:

B. Supplies of Goods involving transport of the Goods from the Kingdom to another Member State, before the implementation of the Electronic Services System in all Member States, shall be treated as an Export of the Goods for VAT purposes [78].

(77) Article 71, Electronic Services System, Unified Agreement for VAT in the GCC

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

The conditions and evidence requirements for a supplier to apply the zero-rate to an export of goods to another GCC state during the transitional period are the same as those applicable to an export of goods outside of GCC Territory (discussed in Section 7 of this Guideline).

Summary: Supply of Goods by a Supplier in the Kingdom		
Goods shipped to the destination in:	**Transitional treatment**	**Treatment following the introduction of the Electronic Services System**
The Kingdom	VAT charged at 15%	VAT charged at 15%
Other GCC state	Export: Zero-rate	Supply to a Taxable Customer: VAT is not charged in the Kingdom
		Supply to a Non-Taxable Customer: VAT is charged in the Kingdom (unless the supplier is registered or required to be registered in the other GCC State)
Non-GCC state	Export: Zero-rate	Export: Zero-rate

9.3 Services Received from Another GCC State

All services received by a Taxable Customer in the Kingdom from a non-resident supplier, where the place of supply of services is in the Kingdom, are subject to VAT under the Reverse Charge Mechanism. This applies whether the non-resident supplier is resident in another GCC state, or has no place of GCC residence. In this way, the transitional rules do not expressly affect the receipt of services in the Kingdom.

9.4 Services Provided to Another Member State of the GCC

The transitional rules consider any GCC state without an introduced VAT system to be wholly outside the ambit of GCC VAT ("third countries") - with corresponding effects on the place of supply and the concept of a GCC resident[79].

(79) Article 79 6, Entry into Force, Unified Agreement for VAT in the GCC

The rules for internal trade between GCC countries are not operational until the other GCC Member State has introduced a VAT system, and this is covered by an Electronic Services System operating between that Member State and the Kingdom. Until such time, the other GCC states are considered to be outside of GCC territory. Supplies made in that state are considered to be made in a third country outside of GCC territory, and residents in that State are treated as residents of a non-GCC country.

Therefore, VAT in the Kingdom will, in principle, apply to all supplies made by suppliers in the Kingdom to (taxable or non-taxable) customers in other GCC states - unless the special cases for place of supply apply.

During the transitional period, zero-rating may apply for supplies of services to recipients who are established in another GCC state and are not established in the Kingdom. To apply zero-rating, all requirements set out in Section 8.2 of this Guideline must be met, noting that other GCC states are not considered as GCC Territory during this transitional period.

Example (18): A lawyer in the Kingdom provides advisory services related to Saudi regulations to a service recipient registered for VAT in the United Arab Emirates. In this transitional example, whilst the United Arab Emirates has implemented a VAT system at the time of supply, there is not however any Electronic Services System operational between the countries. The place of supply of services is therefore determined under the standard provisions for supplies of services made by a supplier resident in the Kingdom, even though the service is provided to a Taxable Customer in another GCC state.

The supplier must consider whether the zero percent rate applies after reviewing the requirements set out in Section 8.2. For the purposes of applying the transitional provisions, and as the service recipient in the United Arab Emirates does not have an establishment in the Kingdom and does not benefit from the services in the Kingdom, the lawyer in the Kingdom may apply the zero percent rate.

Example (19): Kuwait Catering Company engages Al Qasim Co, a market research firm located in the Kingdom, to carry out market research on soft drinks to help its business strategy. Al Qasim Co carries out the research in several cities across the Kingdom; however, the results were delivered to the Kuwait Catering Company in Kuwait, and the services were not used in the Kingdom. Accordingly, the place of supply of the services provided by Qassim Company falls outside the scope of VAT in the Kingdom. However, at the time of completion of the services on 24th February 2018, the State of Kuwait had not implemented its domestic VAT system. Therefore, Kuwait Catering Company is treated as a non-GCC resident under the transitional rules. Consequently, Qassim Company may apply the zero percent rate in the Kingdom, provided that the requirements set out in Section 8.2 of this Guideline are met.

10. Input Tax Deduction

10.1 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 Kingdom
- VAT self-accounted by the VAT-registered person under the Reverse Charge Mechanism
- Import VAT paid to ZATCA on imports of goods into the Kingdom

As a general rule, input VAT that is related to the taxpayer's VAT-exempt 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 services and motor vehicles[80]), 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)[81].

(80) Article 50, Goods and Services Deemed Received Outside the Scope of Economic Activity, Implementing Regulations of the VAT Law

(81) Article 49 7, Input Tax Deduction, Implementing Regulations of the VAT Law

10.2 Proportional Deduction relating to Input Tax

VAT incurred which relates to a taxpayer's VAT-exempt activities, such as exempt financial services or residential rental, is not deductible as Input VAT. A person making both taxable and exempt supplies can only deduct the Input VAT related to the taxable supplies.

If a taxable person incurs general costs or expenses (overheads) in the making of taxable supplies, and others that are exempt from VAT, he must, in that event, split the costs and expenses precisely to specify those costs that relate to the taxable supplies. The input tax will be determined in accordance with the following rules[82]:

Input VAT directly attributed to the taxable supplies	**Deduct in full**
Input VAT directly attributed to the exempt supplies	**No deduction**
Overheads and input VAT that cannot be directly attributed to taxable supplies	**Partial deduction based on apportionment**

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 taxpayer's activities.

The proportional deduction is calculated based on the value of taxable supplies made during a specified year using the following default method:

$$\frac{\text{(The value of Taxable Supplies made by the Taxable Person in the last calender year)}}{\text{(The total value of Taxable Supplies and Exempt Supplies made by the Taxable Person during the last calender year)}}$$

The above method does not include supplies of Capital Assets made by the taxpayer, as these distort the use of input VAT.

(82) Article 51, Proportional Deduction of Input Tax, Implementing Regulations of the VAT Law

Alternative attribution methods, using other calculation approaches than the value of supplies, may be approved with the Authority in cases where these better reflect the actual use of VAT incurred. Further information about the deduction of VAT and proportional VAT recovery is provided in the VAT deduction Guideline.

10.3 Deduction of VAT on Imports

Deduction of VAT is only available for the person who acts as the importer of the goods into the Kingdom.

As a condition of input VAT deduction, a taxable person must hold:

"The customs documents that prove that he imported the Goods in accordance with the provisions of the Unified Customs Law[83]. "

If a taxable person does not act as an importer, it is not eligible to deduct VAT on the import of goods.

The Importer (according to the Unified Customs Law) is the person eligible to deduct input tax charged on imports. In some cases, the importer may vary according to the records of the person who owns the goods at the time of importation (for example, when a broker imports the goods). In all cases, the person eligible to deduct/recover VAT is the importer or the third party, provided that the goods are to be used in the course of taxable activities.

Example (20): A Saudi customer acts as the importer of goods owned by a non-resident supplier, to be installed by the non-resident supplier at the business premises of the Saudi customer. As the goods are to be used by the Saudi customer for the purpose of its economic activities, and it acts as an importer, it is eligible to deduct VAT paid on imports if the other criteria are met.

Example (21): A person resident in the Kingdom appointed a customs broker to carry out import formalities for a luxury vehicle, using the broker's license. The broker paid all costs and charged them to the person in addition to their service fees. The imported vehicle is not used by the broker as part of its economic activities. The broker is not able to deduct the input VAT.

(83) Article 48, Conditions for Exercising the Right of Deduction, Unified VAT Agreement

10.4 Deduction of VAT Paid Under the Reverse Charge Mechanism

VAT deduction is available for the VAT paid by a taxable person under the Reverse Charge Mechanism, provided that the goods or services received are for the purpose of the taxable person's economic activities in the course of making taxable supplies.

The reporting of the reverse charge VAT is a condition for the corresponding deduction. The reporting of output tax and input tax is, under standard cases, reported on the same VAT return (Box 9).

Section 6.3 of this Guideline includes an example regarding VAT reporting in cases where self-accounted VAT is not deductible in full.

In cases where VAT is self-accounted for by the customer in accordance with the Reverse Charge Mechanism, the supplier shall not issue a tax invoice for this purpose[84].

Therefore, the customer will not hold a tax invoice from the supplier in respect of the tax charged. The Authority accepts, in cases where it is provided with the commercial invoice from the supplier, that it shall serve as proof of VAT payment.

10.5 Deduction relating to zero-rated Exports

VAT charged on the supply of goods or services used in the course of making zero-rated export supplies (export) is deductible.

In most cases, a taxable person who predominantly carries on export activities will have Input VAT exceeding Output VAT, and will be eligible for refund of VAT on a regular basis. A refund of the excess balance of VAT repayable (credit balance) may be claimed upon filing of the VAT return[85].

(84) Article 44 3, Tax Deduction Principle, Unified VAT Agreement

(85) Article 69, Refund of Overpaid Tax, Implementing Regulations

11. Obligations of the Taxable Person

Every taxable person must assess his tax obligations and comply with the conditions and obligations related to VAT. This includes registering for VAT as necessary, and exactly calculating the net amount of VAT payable, and paying the tax at the time due, as well as keeping all necessary records and cooperating with officials of the Authority on demand.

If the person is not sure about his obligations, he must contact the Authority through the website zatca.gov.sa or other means of communication. He may also seek external consultation from a qualified consultant. There follows below a review of the most important tax obligations provided for in the Law and the Implementing Regulations.

11.1 Issuing invoices

The supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any other legal person or individual establishment, or other entity established in the Kingdom under its applicable laws, or issue a simplified invoice in the event that the value of the supply is less than SAR 1,000, or for supplies made to the end consumer, by no later than 15 days following the end of the month in which the supply is made.

A tax invoice must also be issued in respect of intra-GCC supplies, exports, and the supply of services subject to the zero percent rate to a non-resident customer in one of the GCC member states.

The tax invoice must clearly detail information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged[86]. If different rates have been applied to supplies, the value of each item at each rate must be separately specified, as well as the VAT applicable to each rate. A tax invoice may be issued in the form of a commercial document (such as a ticket receipt), provided that that document contains all of the requirements for the issuing of tax invoices as set out in the Implementing Regulations to the Law[87].

(86) Article 53, Tax Invoices, Implementing Regulations

(87) Article 53, Tax Invoices, Implementing Regulations

All Persons who are subject to the E-Invoicing Regulations are obliged to generate E-Invoices for all their transactions for which Tax Invoices must be issued.

11.2 Filing VAT Returns

Each VAT registered person, or the person authorized to act on his behalf, must file a VAT return to the Authority for each monthly or quarterly tax period (as appropriate). The VAT return is considered the taxable person's self-assessment of tax due for that period.

Monthly VAT periods are mandatory for taxable persons with annual revenues exceeding SAR 40,000,000. For all other VAT registered persons, the standard tax period is 3 months.

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

Further details on completing VAT returns will be provided in a separate Guideline.

If the VAT return results in VAT due to the taxpayer, or if the taxpayer has a credit balance for any reason, a request for a refund of this VAT may be made after the filing of the VAT return, or at any later time during the next 5 years by filing a request for a refund to the Authority. The Authority will review these requests and will pay the amount due on refund requests that have been approved, directly to the taxpayer[(88)].

11.3 Keeping records

All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable on each transaction and in the VAT return. This will generally include:

- Tax invoices issued and received
- Books and accounting documents
- Contracts or agreements for large sales and purchases

(88) Article 69, Refund of Overpaid Tax, Implementing Regulations

- Bank statements and other financial records
- Import, export and shipment documents
- Other records relating to the calculation of VAT

Records may be kept in paper form or electronically, provided that the conditions specified in the Implementing Regulations of the Law are met. These 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 is extended to 11 years for invoices and records relating to movable capital assets, and to 15 years in connection with invoices and records relating to non-movable capital assets[89].

11.4 VAT Registration Certificate

A resident taxable person who is registered with the Authority for VAT purposes must display its VAT registration certificate at its principal place of business and at all its branches and electronic stores, in a manner visible to the public.
In the event of non-compliance, the violator shall be subject to the penalties prescribed under the Law.

11.5 Correcting Past Errors

If a taxable person becomes aware of an error or an incorrect amount in a filed VAT Return, or of any other non-compliance with the VAT obligation, he should notify the Authority and correct the error by amending the VAT tax return. Errors resulting in a net understatement of VAT (exceeding SAR 15,000) must be made known to the Authority within 20 days of detecting the error or incorrect amount, and the previous return must be amended. In connection with minor errors resulting in a difference of less than SAR 15,000, the error may be corrected by amending the net tax in the subsequent tax return[90].

For further information on correcting errors, please refer to the website **zatca.gov.sa**.

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(89) Article 66, Records, Implementing Regulations of the Law, and Article 52, Capital Assets, Implementing Regulations of the VAT Law

(90) Article 63, Correction of Returns, Implementing Regulations of the VAT Law

12. 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[91].

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.

(91) 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, 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.
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.

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

14. Contacting 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**

15. Frequently Asked Questions

1. **My business does not have an import license. How will VAT apply to goods imported for my business?**

   VAT will be payable by the person who acts as the importer in accordance with the Unified Customs Law.

   This person must determine whether it uses the goods for the purposes of its economic activities and can deduct VAT charged on imports as input VAT.

2. **What value is the VAT calculated on for import?**

   VAT is calculated based on the value determined for Customs purposes. VAT applies to the total value of the goods, including the cost of insurance and transport of goods, any additional services charged by ZATCA, as well as any customs or excise duties applied to the goods.

3. **If the Customs declaration is incorrect, how should VAT be amended?**

   ZATCA applies VAT on imports and follows its procedures. Any amendments to the customs declaration are made by the Authority. However, if VAT has been overpaid in error, a deduction for the additional amount assessed and paid to the Authority through the VAT return.

4. **Does VAT apply to goods imported for temporary use?**

   VAT applies to all imports released to free circulation/local consumption, unless the goods are subject to temporary admission under the Authority.

5. **How does the business evidence the VAT paid on import?**

   The Authority allows taxpayers to access certain records related to VAT paid on all imports through the taxpayer's electronic portal.

6. **Does VAT apply to goods imported for personal use?**

   Yes, VAT is applied to all imports.

7. **How is VAT charged on goods imported with passengers of international transport?**

Passengers carrying commercial goods or personal goods exceeding the thresholds set by ZATCA must declare such goods at the airport, seaport, or any customs checkpoint.

8. **Is it mandatory for "fully taxable" businesses to report VAT under the Reverse Charge Mechanism if there is no VAT payable?**

Yes. All taxable persons, including those fully entitled to deduct VAT, must report VAT due under the Reverse Charge Mechanism on supplies received from non-resident suppliers.

9. **How does a Saudi business determine if the reverse charge is due on services from a non-resident supplier, and at what rate?**

A recipient of services from a non-resident supplier is liable to determine the nature of the services, the place of supply, and the VAT rate from the commercial arrangements, and apply VAT under the Reverse Charge Mechanism as appropriate.

10. **If a Saudi business sells goods to a Saudi customer who intends to later export the goods, can the zero-rate apply?**

No. In this case, the supply from the Saudi company to a Saudi customer is considered a local supply, and no export is expected as part of that supply.

11. **Our business has an agreement under which the customer agrees to export the goods. The customer is not able to provide transport documentation to us. Can we apply the zero-rate?**

No. If your business does not hold transportation evidence within 90 days of the supply taking place, it must charge VAT on the supply. The VAT charged may be later adjusted upon receipt of all required documents.

12. **What commercial evidence is needed for the transport of the company's goods outside of the GCC?**

The transport of goods outside of the GCC without a supply is not subject to VAT; therefore, the requirements for commercial evidence to apply zero-rating are not mandatory. In all cases, the company must retain usual commercial documents in its records for inspection and audit purposes.

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