هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline
on Promotional offers
under VAT Provisionse

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 Tax Circular to clarify certain treatments related to the application of the regulatory provisions in force as at the date of its issuance. The content of this Circular does not constitute an amendment to any of the provisions of the applicable rules and regulations in the Kingdom.

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

Amendment log

#	Edition No.	Amendment Date	Section/ Item	Amendment Type	Amendment Description	Remarks
1	2	May 2026	4.4 4.5.1 6.3.3 10.5	Addition/ amendment	The update is in accordance with the amendments to the Implementing Regulations of the Value Added Tax law issued pursuant to Board Resolution No. (01-06-24) dated 17 Jumada Al-Awwal 1446 H, corresponding to 19 November 2024	-

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1. Introduction

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

The Kingdom of Saudi Arabia ratified the Unified Value Added Tax ("VAT") Agreement for the Cooperation Council for the Arab States of the Gulf ("GCC") pursuant to Royal Decree No. (M/51) dated 3rd Jumada al-Awwal 1438H/31st January 2017 ("Unified 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-Qi'dah 1438H/25th July 2017 ("VAT Law"), as well as the Implementing Regulations of the VAT Law pursuant to the Board of Directors of the Zakat, Tax and Customs Authority Decision No. (3839) dated 14th Dhu al-Hijjah 1438H/5th September 2017 ("Implementing Regulations"), as amended by the subsequent Board decisions.

1.2 Zakat, Tax and Customs Authority

Council of Ministers Decision No. (570) was issued on 22nd Ramadan 1442H/4th May 2021, decreeing the merger of the General Authority of Zakat and Tax and the General Customs Authority into a single entity named the Zakat, Tax and Customs Authority ("ZATCA" or "Authority"). The Authority is responsible for the assessment and collection of Zakat, taxes, and customs duties, ensuring the highest levels of taxpayer compliance in accordance with best practices and high efficiency. The Authority also seeks to enable the Kingdom to become a global logistics hub by facilitating trade, protecting national security, and regulating and managing all customs-related activities and ports to maximize efficiency, productivity, and competitiveness through high-quality, customer-centric services, according to the best practices.

1.3 What is VAT?

VAT is an indirect tax imposed on the import and supply of goods and services at every stage of production and distribution, with certain exceptions. VAT is applied in more than 160 countries worldwide.

VAT is a consumption tax paid and collected at every stage of the supply chain, starting from the manufacturer's purchase of raw materials through to the retailer's sale of the final product to the consumer. Unlike other taxes, Persons subject to VAT shall do the following:

- Collect VAT from their customers for every taxable sale according to the specified percentage.
- Pay VAT to the suppliers from whom they received goods or services, if any, for every taxable purchase equivalent to the specified percentage.

When Persons subject to VAT sell a good or provide a service, they must impose a Tax at a rate of 15% (assuming the standard rate applies to those supplies) added to the final sale price. The taxable Persons shall calculate the 15% they collected or which is due in their favor from taxable sales separately from their revenue to be subsequently remitted to the Authority. The VAT collected by taxable Persons on their sales is called the Output Tax.

Similarly, purchases made by taxable Persons are treated such that 15% VAT is added to the purchases of goods and services made by Persons subject to VAT (assuming the standard rate applies to those supplies), and the VAT they pay to their suppliers is called Input Tax.

For more information regarding VAT, please refer to the VAT general Guideline in the Kingdom of Saudi Arabia available on the website: **zatca.gov.sa**

1.4 This Guideline

This Guideline is addressed to all natural and legal Persons carrying out an economic activity and subject to VAT. The importance of this Guideline lies in providing further clarifications regarding the tax obligations and implications related to promotional offers carried out by taxable Persons. This includes promotional offers in the field of retail sale and other types of trade with customers and individuals, in addition to commercial transactions between companies and establishments (Business-to-Business).

2. Definitions of Key Terms

Value of Supply is defined as the "consideration for the supply without the value of the Tax collected[1]or to be collected in respect of that supply." Accordingly, the Value of Supply is often referred to as the sale price excluding VAT. This concept will be explained in more detail in Section 4 of this Guideline.

Consideration is defined as "everything that the taxable Supplier has received or will receive from the Customer or from a third party for the supply of Goods or Services, including VAT[2]." Consequently, Consideration is referred to as the sale price including VAT. Consideration may include either monetary or non-monetary consideration, or both. This concept will be explained in more detail in Section 4 of this Guideline.

Advertised Price is not defined for VAT purposes. However, the Authority views it as any price advertised or published (whether physical or electronic) or displayed to the public in a retail setting. The advertised or published price, or any price initially set or placed by the Supplier, may differ from the final price agreed upon between the Supplier and the Customer

Consideration paid by a Third Party is not defined for VAT purposes, but this term is used in this Guideline to refer to the consideration paid or payable in respect of a supply of goods or services by a person other than the Customer who will benefit from the supply.

Customer is the Person who receives goods or services[3].

Fair Market Value of a Supply is the "consideration due for similar and simultaneous supplies of goods and services provided flexibly between persons who are not related persons."

Related Persons is a term defined in the Unified VAT Agreement as: "Two or more persons where one of them has the power of direction and supervision over the others such that he has administrative power enabling him to influence the work of the other persons from a financial, economic, or organizational perspective, including persons subject to the authority of a third person enabling him to influence their business from a financial, economic, or organizational perspective."

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(1). Article 26(2), Unified VAT Agreement

(2). Article 1, Unified VAT Agreement

(3). Article 1, Unified VAT Agreement

The Implementing Regulations included further details, in the context of the Kingdom of Saudi Arabia, regarding specific cases in which two or more persons are considered Related Persons for VAT purposes. Among the examples likely to appear in the context of business promotional activities are the following:

- Family members: Natural persons and their relatives (including direct relatives or up to the fourth degree).
- Employers and employees: Including partners in any type of partnership.
- Business owners: A natural or legal person who owns more than 50% of the value or voting rights in that legal person.
- Companies with common ownership: Two legal persons, if the same person or more than one person holds more than 50% of the voting rights or value.[4]

Nominal Supply is a transaction that does not involve a supply of goods or services for consideration, but is considered a supply under the Law and for VAT purposes. This term is defined in the Unified VAT Agreement as "everything that is considered a supply according to the cases stipulated in Article 8 of the Agreement."[5]The application of Nominal Supplies in the context of business promotional activities will be discussed in Section 9 of this Guideline.

Voucher is a term defined for VAT purposes and means the "instrument if there is an obligation to accept it as consideration or part of the consideration for a supply of Goods or Services, and where the nature of the Goods or Services to be supplied or the identity of the Supplier are specified in the Voucher or in the related documents.[6]" Vouchers will be discussed in detail in Section 7 of this Guideline.

Face Value Voucher is defined as the "Voucher issued with a specific monetary value redeemable as shown on the Voucher or in any related document." [7]

Non-Qualifying Voucher is not a defined term for VAT purposes. It is used within this guideline to describe any document, instrument or offer which is commercially described as a "Voucher" but does not constitute a Voucher for VAT tax treatment purposes.

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(4).Article 37, Implementing Regulations

(5).Article 1, Unified VAT Agreement

(6).Article 19(3), Implementing Regulations

(7).Article 19(4), Implementing Regulations

3. Economic Activity and Registration for VAT Purposes

3.1 Who is the Person carrying out an Economic Activity?

Economic activity can be practiced by both natural and legal persons. Legal persons (such as companies) will be considered to be carrying out an economic activity if these persons have a regular activity related to making supplies. It should be noted that natural persons may perform certain works as part of their economic activity or part of their private activities; therefore, there are special rules for determining whether a natural person falls within the scope of VAT or not. Natural and legal persons who carry out an economic activity must register for VAT purposes if the specific requirements for registration are met. These persons must also collect VAT applicable to their activities and pay it to the Authority along with their periodic returns.

3.2 Mandatory Registration?

Registration is considered mandatory for all persons whose annual revenues exceed a certain threshold for registration; that is, if the taxable supplies of the person during 12 months exceed the amount of SAR 375,000 ("Mandatory Registration Threshold"), this person must register for VAT purposes.[8]This is subject to the transitional provisions stipulated in the Implementing Regulations of the Law related to the mandatory registration threshold during the transitional period.

Supplies subject to VAT do not include the following:

- Exempt supplies: such as financial services qualifying for exemption or residential rent qualifying for tax exemption.
- 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 intended for long-term use. [9]

(8). Article 3, Implementing Regulations

(9). Article 1, Unified VAT Agreement

In specific cases, other provisions apply to mandatory registration:

- Persons not resident in the Kingdom of Saudi Arabia who are obligated to pay VAT for supplies they make or receive in the Kingdom of Saudi Arabia must register for VAT purposes regardless of the value of the supplies for which they are obligated to collect and pay VAT.[10]

3.3 Optional Registration

A person resident in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses exceeded the amount of SAR 187,500 ("Optional Registration Threshold") during 12 months may optionally register for VAT purposes.[11]Optional registration for VAT purposes is preferred if the person wishes to claim a refund of the VAT paid on their expenses before issuing invoices or making a subsequent supply. You can view more information about optional registration for VAT purposes through the website: **zatca.gov.sa.**

(10). Article 5(1), Implementing Regulations

(11). Article 7, Implementing Regulations

4. Value of Supplies

The Tax due on a supply of goods or services depends on the value of that supply. The Value of Supply has been defined as "the value of the consideration without the value of the Tax, and includes the value of the non-monetary part of the consideration determined according to the Fair Market Value.[12]"

Accordingly, the value for VAT purposes is the monetary or non-monetary consideration paid or payable for that supply, excluding Tax.

The Value of Supply is calculated using the following formula:

Value of Supply		Consideration payable	
(Price excluding Tax)	=	(Price including Tax)	115 / 100 X

4.1 Consideration

4.1.1 Monetary Consideration

Consideration is defined as "everything that the taxable Supplier has received or will receive from the Customer or from a third party for the supply of Goods or Services including VAT."[13] In most cases, the consideration to be collected is monetary (in Saudi Riyals or any other local currency). Monetary consideration can be transferred in securities or via a bank or electronic transfer in that currency. Usually, the consideration payable is referred to as the "Price" of the supply of goods or services. The Price can be agreed upon or expressed in any currency. In the event a foreign currency is used, the taxable person making the supply must convert the relevant Tax amount due on the supply into Saudi Riyals for the purposes of the VAT return using the daily exchange rate determined by the Saudi Central Bank[14] and show this on the Tax invoice issued to the Customer. [15]

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(12). Article 26(2), Unified VAT Agreement

(13). Article 1, Unified VAT Agreement

(14). Article 61, Implementing Regulations... The amount must be converted to Saudi Riyals using the daily exchange rate specified by the Saudi Central Bank on the date the VAT becomes due, in accordance with the provisions of the Agreement and the Implementing Regulations.

(15). Article 53(5), Implementing Regulations- in some cases, the Taxable Person may issue a simplified tax invoice.

Alternative currencies - such as digital currency or branded currencies - are not a national currency. These are viewed as a type of non-monetary Consideration and should be valued based on their Fair Market Value.

4.1.2 Non-Monetary Consideration

Non-monetary consideration is anything else provided to the Supplier as a form of payment in relation to the supply. It may be in the form of providing goods or services, or an agreement not to do something (which is considered as providing a service). Non-monetary consideration is valued at its Fair Market Value and is added to any monetary consideration payable.

Trade-in of Goods

A promotional offer that includes the possibility for the customer to "trade in" a product and purchase a new product, resulting in a discount in the sale price, is a common example of partial payment through non-monetary consideration.

Example (1):

Al-Safa Electronics Company sells a new model of flat-screen TV in its store for SAR 1,200 (including VAT). The company offers a promotional deal to customers, allowing them to trade in their used TV sets for a reduction in the monetary price payable. Waleed brought his TV set to Al-Safa Electronics Company.

The store manager appraised the TV and offered Waleed a discount of SAR 200 in exchange for his device. This indicates that the Fair Market Value of the used device is SAR 200.

Al-Safa Electronics Company supplied Waleed's device for an amount of SAR 1,200; the monetary consideration was SAR 1,000, and SAR 200 was a non-monetary consideration. VAT is calculated on the basis of a percentage of the total consideration (SAR 1200 X 15 / 115, which is SAR 156.52).

Example (2):

Al-Tawfiq Auto Supplies Company offers premium off-road tires for SAR 1,050 per tire. If the customer requests to change all 4 used tires, the consideration offered by the company will be SAR 4,000. The resale value of used tires is low, if any, and in all cases, the company disposes of the used tires by providing them to a specialized waste company at no fee (so that the rubber is reused sustainably).

In this case, the "traded-in" tires do not have sufficient value to be viewed as non-monetary consideration. The sales offer by Al-Tawfiq Company is a discount from the consideration payable. VAT must be calculated based on the total monetary consideration (SAR 521.73, which is the result of SAR 4000 X 15 / 115

Barter

Barter transactions occur when parties agree to exchange goods or services without using any monetary consideration. If both persons are taxable, each supply within the barter process can be a taxable supply (of the same Fair Market Value).

Example (3):

Fouad is a certified public accountant in Al-Khobar and is registered for VAT. One of his clients, Al-Saqr Group, allows him to use one of the offices in its building regularly to perform his work without any monetary consideration, provided that he, in return, prepares the monthly accounts for the group.

This is considered a supply of accounting services by Fouad in exchange for a supply of services (use of commercial real estate) by Al-Saqr Group. Both supplies are subject to VAT. Both Fouad and Al-Saqr Group agreed on an appropriate Fair Market Value of SAR 2,100 (on the basis of the normal cost of preparing monthly accounts). Both Al-Saqr Group and Fouad provide monthly Tax invoices showing the Value of Supply (SAR 2,000 in addition to SAR 300 VAT), considering that the amount will be settled based on the exchanged non-monetary consideration.

In the event both parties to the barter process are non-Related Persons, and both have the right to deduct Input Tax related to the supply, and both parties agreed on the monetary value of the goods or services provided as consideration due from each of the parties involved, this will generally be accepted that the consideration for supply in all cases is the Fair Market Value for each supply. In all other cases, the Fair Market Value for each supply must be used based on a similar and simultaneous supply, as explained in Paragraph 4.5 of this Guideline.

Activities that do not constitute non-monetary consideration

Promotional offers can sometimes require the customer to do something to obtain the discount. Often this requirement consists of doing something insignificant that has no value or its value is negligible, for example:

- Purchasing a specific number or a specific quantity of goods or services (to obtain a volume or quantity-related discount).
- Answering a competition-related question correctly.
- Bringing reusable packaging, such as a bag or a coffee cup.
- Commenting on the Supplier's social media account.

In these cases, the action performed by the customer will generally not be viewed as additional non-monetary consideration. The Supplier must calculate VAT based on the discounted price.

Example (4):

A cafe in a famous shopping mall in Riyadh offers a discount of SAR 1 on any hot drink when customers bring a reusable coffee cup. The value of this action is not material and does not constitute non-monetary consideration. The cafe sells the coffee at a small discount and must include VAT on the basis of the monetary consideration received.

4.2 Expenses, Fees, and Other Taxes

The Unified VAT Agreement stipulated that expenses, fees, and other taxes, if applied to the Customer, must be included in the value for VAT purposes:

- The Unified VAT Agreement stipulated that expenses, fees, and other taxes, if applied to the Customer, must be included in the value for VAT purposes.[16]

The calculation of the Tax depends on whether the fees are expressed as inclusive of VAT, or if it was agreed that they would be exclusive of VAT in business contracts.

Example (5):

Quiet Sleep Company, a retail store, sells a single bed for SAR 3,500 and charges a fee for transport and delivery of SAR 500. All prices are advertised as inclusive of VAT. The total Consideration payable for the supply includes the delivery fees (SAR 4,000). The total Value of Supply to be declared by the Supplier is the amount excluding Tax, which is SAR 3,478.26

Example (6):

Al-Barq Printing Company entered into an agreement with one of the company's clients to print documents. The company set an additional fee of SAR 250 (exclusive of VAT) for all express orders requested on Friday or Saturday. The Customer requests urgent printing carried out at a base value of SAR 3,500. The total Value of Supply is SAR 3,750, including the additional fees. Al-Barq Company adds VAT at an additional rate of 15% to this value (which is SAR 562.5).

If the Supplier incurs expenses to perform the supply but does not charge the Customer these fees, they will not constitute part of the value of that supply.

Example (7):

Al-Noom Al-Hadi Company provides a free delivery service on any sale of a bed with a value exceeding SAR 5,000. A customer purchased a bed for a cash amount of SAR 6,000. Al-Noom Al-Hadi Company incurs the cost of shipping and delivery, but it agreed to provide the bed with delivery for a single price of SAR 6,000.

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(10). Article 26(3), Unified VAT Agreement

VAT is calculated based on the total consideration (i.e., SAR 782.60, which is the result of the equation SAR 6,000 * 15/ 115). Further details regarding goods and services sold at a single price are provided in Section 6 of this Guideline.

4.3 Consideration Paid by a Third Party

It is possible to pay the Consideration to the Supplier by the Customer or by any other person. Usually, the Consideration paid or payable by a person other than the Customer is referred to as "Third Party Consideration." When determining the total Value of Supply and the VAT due, the Consideration paid by other parties must be considered in addition to any Consideration paid by the Customer.

Example (8):

A cafe located in Riyadh Mall offers a discount of SAR 5 on any hot drink for customers who provide a receipt for purchasing goods from any other store in the mall on that day. This promotional offer is managed by the mall management as an incentive for shoppers. The management company agrees to compensate the cafe with SAR 4 for every discount provided.

In this scenario, and because of the agreement between the parties, the cafe receives SAR 4 from the management company, and this amount is considered a Third-Party Consideration for the drink provided to the Customer. The cafe must calculate and declare VAT on the basis of the monetary Consideration received from the Customer in addition to the Third-Party Consideration received from the mall management.

Subsidies and Government Support

A subsidy or support paid by any ministry or government authority in the Kingdom of Saudi Arabia to a Supplier regarding a supply of goods or services does not contribute to the Value of Supply (in the same way that Third Party Consideration paid by any other person is treated).[17]

(17). Article 26, Unified VAT Agreement

4.4 Adjustment of Consideration

It is possible to adjust the Consideration due for the supply of goods or services at a later stage in any of the following cases:

- The supply was cancelled or stopped after it occurred or was considered to have occurred wholly or partially.
- There is a fundamental change or amendment in the nature of the supply such that it leads to a change in the Tax due.
- The Value of Supply was agreed upon in advance, and then it was adjusted for any reason, including offering an additional discount after the sale was completed.
- Upon returning the goods or services or any part thereof to the Supplier, and the Supplier accepts the return. [18]

In these cases, the adjustment of the Consideration will result in an increase or decrease in the Value of Supply for VAT purposes. The taxable person adjusting the Consideration for the supply must include this adjustment in a credit or debit note document that corrects the original Tax invoice.[19] For VAT purposes, a credit note reflects the adjustment by decreasing the Consideration in the Tax invoice previously issued for a supply of goods or services by the Supplier. Conversely, a debit note reflects the adjustment by increasing the Consideration in the Tax invoice previously issued for a supply of goods or services by the Supplier.

A taxable person acting as a supplier must adjust the previously accrued Output Tax to reflect the tax amount calculated upon the change in consideration. The taxable person must issue the credit and/or debit notices required under this Article no later than 15 days from the month following the date on which any of the circumstances necessitating such notice occurred.

(18). Article 40, Implementing Regulations

(19). Article 57, Unified VAT Agreement, and Article 54 of the Implementing Regulations

4.4.1 Adjustment of Output Tax

The Taxable Person acting as a supplier must adjust the Output Tax previously due to reflect the tax value calculated upon the change of consideration.

The Taxable Person must issue the credit and/or debit notes required to be issued in accordance with the provisions of this Article, no later than 15 days from the month following the date of occurrence of any of the cases requiring the issuance of the notice.

In the event a credit note or debit note is issued, this will affect the calculation of both the Output Tax for the Supplier and the deductible Input Tax for the Customer (if the Customer is a taxable person). Accordingly, the Supplier must adjust the Output Tax as follows: [20]

If the credit note is issued or the Consideration is adjusted by an increase in the same Tax Period in which the original supply occurred, or before submitting the Tax Return for the original supply	During the Tax Period in which the credit/debit note was issued..
If the credit note is issued after submitting the Tax Return for the original supply	During the Tax Period in which the note was issued, or the event that led to the adjustment occurred, whichever happened later.
If the Consideration is adjusted by an increase (and this resulted in the issuance of a debit note) after submitting the Tax Return for the original supply	In the Tax Period in which the event that led to the adjustment occurred.

If the Customer was a taxable person on the date of the original supply and had previously deducted Input Tax on that supply, they must correct the Input Tax to reflect the Tax amount calculated on the adjustment in Consideration in the Tax Period in which the credit or debit note was issued.[21]

(20). Article 40, Implementing Regulations

(21). Article 40(6), Implementing Regulations

Example (10):

An industrial company pays an advance payment to a construction company to build a new warehouse. The construction company issues a Tax invoice for the advance payment received. Before starting the project, the construction company announced that it was unable to proceed with the project. The supply was cancelled, and a credit note was issued regarding the previous Tax invoice.

The construction company may adjust the Output Tax in the period in which the credit note is issued. Note that the industrial company must adjust the Input Tax in its return for the same period.

Example (11):

United Arab General Trading Company issued an invoice on 1st November 2021 regarding the delivery of a number of goods to Golden Arrow Food Distribution Company. While reviewing prices in April 2022, it was found that an incorrect price was used for 2 items, which resulted in charging lower fees than the agreed price. It was agreed with the Customer to issue a debit note to reflect the additional amount due for those goods. The Output Tax must be declared in the period in April 2022, which is the period in which the event occurred (price review and agreement on additional Consideration with the Customer).

4.5 Application of Fair Market Value to Supplies

Paragraph 4.1.2 of this Guideline clarifies that "Fair Market Value" is applied in cases where non-monetary consideration is provided, to value that consideration.

In certain cases, the Value of Supply for VAT purposes may be considered the Fair Market Value, rather than the actual Consideration paid or payable. This provision prevents Related Persons from agreeing to nominally reduce the price and reduce the VAT payable.

4.5.1 Standards for Calculating Fair Market Value

Fair Market Value is considered when all the following 3 conditions are met:[22]

A. **The supply must have taken place between two related persons or their affiliates, as defined in the Agreement or these Regulations.**

Natural or legal persons are considered "Related Persons" for VAT purposes if they are under common control, as well as in other specific cases stipulated by the Implementing Regulations. Examples of Related Persons in the context of promotional activities include:

- **Family members:** Natural persons and their relatives (including direct relatives or even up to the fourth degree).
- **Employers and employees:** Including partners in any partnership.
- **Business owners:** A natural or legal person who owns more than 50% of the value or voting rights in that legal person.
- **Companies with common ownership:** 2 legal persons, if the same person or more than one person holds more than 50% of the voting rights or value.[23]

B. **The value of the supply must be less than the Fair Market Value.**

Fair Market Value must be used only if the agreed Consideration is less than that Fair Market Value. If the Consideration is equal to or higher than the Fair Market Value, the supply will be valued in the usual manner, i.e., based on the Consideration paid or payable.

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(22). Article 38, Implementing Regulations

(23). Article 37, Implementing Regulations - Further details

C. **The customer must not be entitled to deduct or recover the full input tax related to the supply.**

The use of Fair Market Value is not required in cases where the Customer is entitled to a full deduction of the Tax imposed on that supply. This condition addresses the Customer's ability to deduct from this supply; thus, there is no requirement for the Customer to be fully qualified to deduct VAT on all supplies.

Example (12):

Al-Qemma International Finance Company is a licensed finance company in the Kingdom of Saudi Arabia that provides advisory services (subject to VAT at 15%) and also generates finance income on implicit margins (which is exempt from Tax). The company deducts all taxes imposed on expenses related to its advisory activities, and some taxes imposed on general expenses based on a proportional deduction calculation.

Al-Qemma Office Services Company is a related company that provides office and administrative services to third parties. The company agreed to apply significant discounts on 2 invoices:

A. **Collecting and publishing an advisory report for the client.**

The invoice associated with the advisory reports for the client relates directly to the taxable supplies of Al-Qemma International Finance Company, and VAT will be fully deductible. Al-Qemma International Finance Company is not required to use Fair Market Value on this supply, despite meeting the first and second criteria.

B. **Design and administrative services for creating a general website for the company.**

The invoice relates to the general overhead expenses of Al-Qemma International Finance Company's activities, and it is not eligible for full deduction. Al-Qemma Office Services Company must calculate and declare the Output Tax based on the Fair Market Value of these services, regardless of the Consideration agreed upon between the parties for these services.

4.5.2 Standards for Calculating Fair Market Value

In all cases where the Fair Market Value must be determined, it is calculated by reference to the Consideration that would be paid for a similar and simultaneous supply of goods or services provided flexibly between persons who are not Related Persons.

The Implementing Regulations stipulated that a similar and simultaneous supply:

"Means another supply of goods or services, either of the same type of goods and services supplied or that are identical or substantially like them. This must be verified based on factors including the characteristics, quality, and quantity of the goods and services, the place and date of supply, and the reputation of the Supplier."[24]

The Fair Market Value should be based on the price that could be obtained by unrelated third party Customers in the normal course of events:

- for those goods and services;
- at that time.

Example (13):

A fashion store offers a discount to its employees amounting to 40% of the Advertised Price. Meanwhile, the maximum discount the store usually offers to the public is 20%. An employee purchased a suit with an Advertised Price of SAR 2,500 (including VAT) and paid only SAR 1,500. Earlier that year, the store offered a similar suit for SAR 1,200 during a special clearance.

In this case, the price of the similar and simultaneous supply would be the price offered to the public at that time (with a 20% discount, or SAR 2,000 as the price including Tax). Consequently, the Fair Market Value would be SAR 1,739.13 which is the price excluding Tax. The suit offered during the clearance, while similar in quality, is not considered a simultaneous supply as the supply occurred under different circumstances.

The store is obligated to calculate VAT and submit its Tax Return on the basis of the Fair Market Value, which is 15% × SAR 1,739.13 or SAR 260.87 The employee remains committed to paying SAR 1,500 (the store will bear the Tax difference).

value of a similar and simultaneous supply cannot be verified (such as unusual goods or services supplied to a location other than the Saudi market), the Supplier or the Authority may determine an alternative value for the Fair Market Value based on:

- Other similar transactions for the supply of goods and services, or the cost incurred by the Supplier who made the supply, whichever is greater. In such cases, the Authority's decision shall prevail in the event of a dispute.[25]

(24). Article 38(3), Implementing Regulations

(25). Article 38(4), Implementing Regulations

5. Prices and Discounts

5.1. Basic/Standard Retail Sale Price

Usually, the Supplier determines the price requested as Consideration for goods and services in the context of retail sale, and this may be physically displayed to the public in a store, in published materials, or online. In some cases, a "Basic Retail Price" or a "Suggested Retail Price" for certain goods and services may be determined by the Supplier or a third party such as the manufacturer. In all cases, "the price advertised in the local market for goods and services must include VAT."(26)

The Authority considers that this applies to any prices advertised within paper or electronic publications or those displayed to the public in a retail store. Meanwhile, it is possible to determine prices agreed upon between the Supplier and the Customer as being exclusive of VAT.

The Advertised Price may not be the final Consideration agreed upon between the parties for the sale of goods or services. VAT must be calculated in all cases based on the total Consideration paid or payable, and if this amount is different from the Advertised Price (taking into account any supplies for which the Fair Market Value must be determined as explained in Paragraph 4.5 of this Guideline).

Example (14):

A household appliances store sells outdoor lighting tools to the public at the Basic Retail Price of SAR 230 each (this is the price including Tax, which is SAR 30). The store agrees with a developer specializing in landscaping to sell 20 units of these lights for SAR 3,675. The store calculates VAT on the total amount due (VAT SAR 479.34, calculated using SAR 3,675 X 15 / 115) and must show this in the Tax Invoice issued to the developer and the Tax Returns as the Output Tax.

5.2 Discounted Prices

"Discounted Price" is a commercial term describing a sale price that is lower than the previous sale price. In these cases, VAT is due based on the "Discounted" Consideration paid or payable for the supply.

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(26). Article 25(2), Unified VAT Agreement

Example (15):

A fashion store offers shirts at the "usual" retail sale price of SAR 250, while granting all customers a Discounted Price of SAR 200. If a customer purchases a shirt with the discount offer, VAT will be calculated based on the Discounted Consideration received (VAT amounting to SAR 26.08, calculated according to the formula SAR 200 X 115 / 15).

A discount can also be made after the Supplier and the Customer agree on the value of the Consideration, or after the occurrence of one or all the following events:

- Supply of goods or services
- Issuance of the invoice by the Supplier
- Payment of the Consideration agreed upon initially/in advance

In all cases, the discount represents a reduction in the total amount payable. The Unified Agreement explicitly confirms that:

"The value of supply is reduced by... price reductions and discounts granted to the Customer."(27)

Example (16):

Al-Din Supply Company entered into an agreement to sell fertilizers to a large agricultural client at a rate of SAR 4.28 per kilogram (exclusive of VAT). On 21st May, the company delivered 7,500 kilograms, which, based on its agreement with the Customer, should be valued at 32,100 (plus VAT). The manager of Al-Din Supply Company provides an additional discount to make the final price excluding Tax SAR 32,000. VAT is calculated at a rate of 15% on the final price after the discount (which is SAR 4,800) and appears on the Tax Invoice issued to the Customer.

5.2.1. Retrospective Discounts

In the case of a discount on the amount payable after the issuance of the Tax Invoice by the Supplier, the Supplier must issue a Tax credit note to record the change that occurred to the Consideration. A retrospective discount can also be described as a "cash rebate" in cases where the Supplier refunds any Consideration originally paid by the Customer.

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(27). Article 26(6)(a), Unified VAT Agreement

In the event a Tax credit note is issued, it will affect the calculation of the Output Tax of the Supplier as well as the deductible Input Tax of the Customer (in cases where the Customer is a taxable person). The Supplier must adjust the Output Tax, and the Customer must deduct any Input Tax previously deducted, according to the procedures explained in Paragraph 4.4 of this Guideline:

Example (17):

On 21st June 2021 , Al-Afdal Hotel in Jeddah issued a Tax Invoice to a company for the use of a meeting room during a conference for an amount of SAR 7,000 (including VAT of SAR 1,050). The company received the invoice and noticed that the price was higher than the advertised price of a competing hotel. The company requested the hotel to discount the amount due to SAR 6,000. The hotel agreed to issue a Tax credit note of SAR 1,000 (including a VAT amount of SAR 150) on 26th June. Al-Afdal Hotel calculates the net VAT from the Tax Invoice and the Tax credit note at SAR 900. (Note: This also represents the VAT on the Discounted Consideration valued at SAR 6,000). The hotel includes the Output Tax of SAR 900 in its quarterly Tax Return for this period in which the credit note was issued. Similarly, this is the maximum amount the company is entitled to deduct as Input Tax.

Example (18):

United Arab General Trading Company issued an invoice on 1st November 2021 for the delivery of a number of goods to Golden Arrow Food Distribution Company. While reviewing prices in April 2022, it was found that an incorrect price was used, which led to charging more than the agreed price. United Arab Company issued a Tax credit note on 30th April 2022 to reflect the reduction in the Consideration due for these goods, and paid the refund amount. United Arab General Trading Company may adjust the Output Tax in the quarterly Tax Period until June, which is the Tax Period in which the Tax credit note was issued. Golden Arrow Company must also adjust its Input Tax deduction in the same Tax Period.

(28). Article 40, Implementing Regulations

5.2.2 Payment of Customer Expenses on Their Behalf

In all cases where the Supplier pays any amounts in the name and for the account of the Customer, these amounts are reduced from the Value of Supply.[29] The total Consideration payable by the Customer for the supply of goods and services will decrease as a result of paying this amount effectively, giving the same overall result as if the Customer had paid themselves, and the Supplier had agreed to a discount. Since the Supplier is not the recipient of any goods or services supplied, they are not entitled to deduct Input Tax in relation to the amounts paid on behalf of their customer.

Example (19):[30]

Al-Hall Al-Saree' Co. Ltd., a manufacturer in the Kingdom, sells machinery to auto workshops. As a promotional agreement, it sold an air compressor to Platinum Motors for the advertised monetary value of SAR 4,200 (including VAT), and the company offered to pay the installation costs within the Customer's premises. Platinum Motors hired a local company to install and calibrate the machine in February 2020, and received an invoice for SAR 525 (including VAT) for installation services. Under the promotional agreement, Platinum Motors sent a copy of the invoice to Al-Hall Al-Saree' Company, which paid the invoice value directly to the third party. Accordingly, the Value of Supply provided by Al-Hall Al-Saree' Company was reduced by deducting the amount excluding Tax that it paid on behalf of its customer, Platinum Motors. Al-Hall Al-Saree' Company issued a Tax credit note to reflect the reduction in the Consideration by SAR 525, including a Tax discount of SAR 25. Consequently, this leads to adjusting the Consideration for the air compressor to SAR 3,675, in addition to the Tax of SAR 175. Although Al-Hall Al-Saree' Company actually paid the third-party invoice to Platinum Motors, it is not the recipient of the installation service from the local company, and therefore will not be able to deduct the Tax imposed by the third party as Input Tax.

(29). Article 26(6)(c), Unified VAT Agreement

(30). Change of VAT rate to 15% as of July 1, 2020

5.2.3 Special Cases

Some Suppliers may use promotional language stating that the Supplier "will pay the cost of VAT" for the supply, or use similar wording indicating that the Customer will not pay VAT for this supply. Regardless of any promotional language, in all cases where a taxable Supplier makes a supply of goods or services (subject to the standard rate of 15%), this supply will be subject to VAT.

The Supplier may choose to reduce the total Consideration payable by the amount of the VAT or by any other amount, but this simply represents a discount on the Consideration inclusive of Tax. In these cases, the total Consideration will be inclusive of Tax, and VAT represents 115 / 15 of this Consideration. The Supplier must issue a Tax Invoice (or a Simplified Tax Invoice, where applicable) showing the Tax charged.

5.3 Quantity-Related Discounts

As a promotional measure, a Supplier may encourage customers to make additional purchases by offering a discount applicable to a customer who purchases a certain quantity of goods or services or pays a certain monetary value. Purchases are made at a non-discounted price until the agreed quantity (or monetary amount) is reached, at which time a refund amount is credited, or a cash amount is paid to reflect the discount. This is also referred to as a "cash-back" promotion. The standard practice for declaring retrospective adjustments in cases where the Customer had made multiple purchases over a period of time to reach the specified quantity is that the discount will result in a retrospective adjustment to several supplies. The Supplier must issue a credit note and refer to the original Tax Invoices for the supplies made at the basic (non-discounted) price.

Example (20):

Rose Roast, a coffee supplier, offers a 10% discount to customers who purchase more than 100 kilograms of coffee beans within 3 months. The basic price is SAR 160 per kilogram, plus VAT of SAR 24.

Breakfast Cafe orders a monthly supply of 35 kilograms on 1st January, 1st February, and 1st March 2021. Rose Roast issued a Tax Invoice with delivery for each separate order, charging a SAR 5,600 plus VAT of SAR 840 for each supply.

At the end of March, Rose Roast calculates which customers are eligible for the 10% discount during the first quarter of 2021. Since Breakfast Cafe's supply orders exceeded 100 kilograms, it is entitled to a 10% discount on all purchases during the first quarter (SAR 1,932, which is a 10% discount from the fee value, including Tax). Rose Roast issued a credit note for SAR 1,680 plus SAR 252 as VAT. The credit note refers to the Tax Invoices issued in January, February, and March.

Rose Roast must declare the discounted amount (after the discount) as the Output Tax in its Tax Return for the first quarter. Breakfast Cafe may deduct Input Tax on the Tax amount after adjustment (after reduction) only in its Tax Return for the first quarter.

5.4 Discount for Early Payment

A Supplier may offer a discount to customers on the supply of goods or services, provided that the Customer pays the Consideration for the supply before a certain date. In cases where the Customer makes an early payment and the discount is granted, the "Output Tax" included, and the Tax Invoice document issued by the Supplier, must reflect the Discounted Consideration paid.

If a Tax Invoice has already been issued and that invoice showed VAT based on the Consideration before the discount, a credit note must be issued to reflect the discount that occurred to the Consideration.

6. Goods and Services Sold at a Unified Price

A supply may include multiple different goods or services provided by the Supplier to the Customer. In many cases, separate value shall be determined for each good or service, then these values shall be aggregated to calculate the total Value of Supply and the total Consideration due.

However, there are other cases where multiple elements (such as multiple goods or services, or any combination of goods and services) are sold at a single price without specifying an independent value for each item. This Section will clarify how VAT is applied in these cases.

6.1 Single Supply and Multiple Supplies

The first step is to determine whether the goods and services provided constitute a single supply or multiple supplies. This is highly important, specifically if any of the elements of the supply are not subject to VAT at the basic rate (for example, if the goods or services are subject to the Zero Rate or are exempt from Tax).

Multiple supplies are recognized in cases where a bundle of different and distinct elements (goods or services) is provided, and each of those elements has a separate value and can be benefited from independently of others, and the Customer has the option to purchase each element separately.

As for a single supply, it can be recognized for VAT purposes if:

- The supply consists of several elements, and it is proven that one element is clearly dominant, and the other element/elements must be used as part of this dominant element, and the remaining elements can be considered as ancillary to this primary supply.
- The supply consists of several elements, and these elements are closely linked to such an extent that splitting the individual elements into separate supplies would be artificial.

An important factor in determining whether a supply is a single supply or multiple supplies is the intention of the Customer and the Supplier. Does the Customer intend to purchase a dominant good or service, or several individual components that have independent values?

Additionally, if it is possible to purchase the independent elements of the supply separately from different suppliers, this may indicate that the supply is a multiple supply, but it is not definitive and final.

Example (21):

A car retailer offers to sell a car for SAR 85,000 (including VAT). This price includes a 1-year warranty provided to all customers against mechanical defects. The Customer does not have the option to obtain a lower price in exchange for refusing the standard warranty. Consequently, this supply constitutes a single supply for VAT purposes.

Example (22):

To encourage the purchase, the retailer offered to supply and install a roof rack as part of the deal. Roof racks are typically sold separately for SAR 1,000 (including VAT). Since the rack was included in the car sale offer, installed before delivery, and used immediately with the vehicle, this is considered a single supply.

Example (23):

The Customer wishes to obtain an optional warranty for an additional period and a maintenance and repair contract for 5 years to ensure the car's safety on the road throughout its period of use. The basic price for extending the warranty for an additional period is SAR 10,000. The retailer offers to sell the car with the warranty for an additional period at a single price of SAR 90,000. Although the warranty must be used in relation to the original car, the relative nature and commercial value indicate that the Customer is obtaining a distinct supply and that he can choose to pay an additional amount for this distinct supply. This indicates that the Consideration relates to 2 separate supplies.

The Supplier must allocate an appropriate value to the warranty for an additional period and show this on the Tax Invoice issued to the Customer. Reference may be made to the commercial documents required to determine the intention of the Supplier and the Customer, for example:

- Contractual provisions (for example: whether the individual elements are referred to separately in the contract, or for a unified price).
- Invoicing arrangements (for example, whether each of the multiple elements appears with separate Consideration on the invoice, or if only one dominant element appears on the invoice).

Commercial documentation is not definitive in all cases. It may be issued incorrectly, it may lack sufficient detail, or it may be intentionally manipulated in some cases to achieve the desired tax treatment. The Authority may see that there is another appropriate interpretation based on the commercial substance of the transactions.

6.2. Single Supply and Multiple Supplies

If a single price is determined for multiple supplies of goods and services, the Supplier must determine the value of each supply separately and calculate VAT accordingly. If the Supplier issues a basic Tax Invoice that includes several supplies, the value and the amount of VAT for each supply must be displayed separately.[31] In cases where there is a multiple supply:

- If each supply has the same VAT rate, VAT must be calculated on the total value of the Consideration received for those supplies.
- If the different supplies are subject to different tax rates or tax treatments, VAT must be calculated and applied based on the value of each separate supply.

Example (24):

A dentist registered for VAT in the Kingdom provides and installs artificial teeth replacement for a patient in his private clinic. The dentist's services are subject to VAT at 15%, but the artificial tooth is a medical good qualifying for the Zero Rate.

The dentist offers a 10% discount to the patient on the fees. The dentist provides an itemized invoice to show the relevant costs to the patient. The basic value of the goods and services provided is not affected by the discount offer. Consequently, the dentist applies the discount equally to the goods subject to the Zero Rate and to the services, and applies VAT at the zero percent rate to the qualifying medical goods as follows:

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(31). It is possible to request further details, such as showing the unit price for supplies of goods. Article 53(5) of the Implementing Regulations includes the details. Please refer to the Tax Invoices and Records Guideline.

Details (SAR)	Value SAR	VAT	Price including Tax
Dental Services Installation of an artificial tooth Cleaning and polishing teeth	1,200	180	1,380
Discount	**120**	**18**	**138**
Total services subject to the standard rate	1,080	162	1,242
Artificial tooth structure (Zero-Rated medical good)	300	0	300
Discount	**30**	**0**	**30**
Total goods subject to the Zero Rate	270	0	270
Total	**1,350**	**162**	**1,512**

The value of each supply must accurately reflect the relative commercial value of the goods and services provided. Suppliers must not seek to artificially estimate the value of Zero-Rated and tax-exempt supplies at a value higher than the value of supplies subject to the standard rate. Suppliers must be able to provide supporting documentation for the adopted commercial prices upon request from the Authority.

In the case of a single supply, the entire supply must be subject to the same tax treatment (i.e., the supply is taxable at the standard rate, the Zero Rate, or is exempt from Tax).

Example (25):

An individual purchases an electric food processor during his visit to the Kingdom. The Supplier charges a single price of SAR 420 (including VAT) for the food processor, as well as granting the Customer access to electronic content specific to customers (which includes recipes, storage tips, and other similar information to that available on public sites).

In this case, the customer's entry into the electronic platform does not constitute an independent supply, but rather an element dependent on the main supply (the food processor), and, therefore, the supply is treated as one unit, and all its elements are subject to the same tax treatment applied to the main supply.

6.3 Promotional Offers involving "Free" Goods

In some cases, a good or service is described as "free" as promotional language, but it is provided as part of a group of other goods or services (for example, a retailer sells 2 identical goods with a 3rd "free" sale, or a mechanic provides a "free" safety check as part of every vehicle service). The provision of free items requires analysis of whether a Nominal Supply is made.

6.3.1 Nominal Supplies - Legal Provisions

For VAT purposes, certain specific transactions that do not involve supplies to third parties for Consideration may be treated as supplies for VAT purposes. These transactions are referred to as Nominal Supplies and have been clarified in the Unified VAT Agreement. (32)

The provision of free goods or services as part of business promotional activities may result in a Nominal Supply. The definition of "Nominal Supply" includes (among other things):

"The supply of goods without consideration, unless the supply takes place in the course of business as samples and gifts of trivial value (as determined by each Member State); and the supply of services without consideration."

The default position is that a Nominal Supply will arise from the goods and services provided by the taxable Person without receiving any Consideration (from any person). However, the Nominal Supply is subject to the 3 exceptions below.

Exceptions

Low-Value Goods: A Nominal Supply does not occur if the taxable Person supplies gifts and samples or provides goods or services for the purpose of promoting their economic activity, provided that the Fair Market Value of each supply does not exceed the amount of 200 Saudi Riyals per recipient, and that their total together does not exceed 50,000 Saudi Riyals for each calendar year. (33)

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(32). Article 8, Unified VAT Agreement

(33). Article 15, Implementing Regulations

Goods for which Input Tax was not deducted: The supply is not treated as a Nominal Supply in cases where the taxable Person has not previously deducted the Input Tax associated with the goods and services provided. (34)

The Authority interprets this concept to include any Input Tax related to the goods or services that may be the subject of the Nominal Supply. For example, this may include the purchase of the goods or services themselves, or the foundational expenses (such as raw materials used in manufacturing the goods or equipment used to supply the services).

Example (26):

Al-Bayt Al-Masi Construction Company purchases goods from a supplier resident in the Kingdom to provide as gifts to selected and important clients, suppliers, and other guests. It is known that these items will be used as gifts (supplies without Consideration), and the company does not deduct Input Tax on the purchase. Consequently, Al-Bayt Al-Masi Construction Company is not required to include a Nominal Supply in its Tax Return, as those goods are typically provided without Consideration.

Items provided as an additional part of another supply for Consideration. This concept will be discussed further in Paragraph 6.3.2 below.

6.3.2 Free Goods or Services provided as part of another Supply

In some cases, a good or service will be described as "free" as promotional language, but this may not reflect the commercial reality. For example:

- The supply of goods without consideration, unless the supply is made in the course of business as samples and gifts of low value (as determined by each Member State).
- The supply of services without consideration.

The default position is that a Nominal Supply will arise from the goods and services provided by the taxable Person without receiving any Consideration (from any person). However, the Nominal Supply is subject to the 3 exceptions below:

(34). Article 8(3), Unified VAT Agreement

1. Goods or services may, in fact, be provided together and as a secondary part of another single supply, if that is the primary intention of the Customer. For example, "free delivery" constitutes a secondary part of the sale of an expensive piece of furniture. In this case, the free good or service does not represent a separate supply without Consideration in itself. As such, the Supplier does not make a Nominal Supply.

Example (27):

Al-Muna Company is a wholesaler of office furniture in Riyadh. The store offers free delivery service to the Customer's place of business (within the Riyadh region) for all large orders of office furniture. Al-Wahda Bank purchased 50 office chairs from the store to furnish its new building. The store offers a special price of SAR 120 per chair with delivery to the new building. In this case, the facts indicate that there is no separate supply of delivery services. Instead, Al-Muna Company provides a single supply of goods delivered to Al-Wahda Bank. Therefore, the Tax Invoice for Al-Muna Store does not separately indicate the delivery service. The following are excerpts from the Invoice:

Details	Quantity	Unit Price (Excluding Tax)	VAT Rate
Office chair model number	50	120	15%
Total (Excluding VAT)	**6000 SAR**		
VAT at 15%	900 SAR		
Total Due	**6900 SAR**		

2. "Free" goods or services may be provided as part of a group of other goods or services sold for a unified price. For example, a retailer sells 2 identical goods with a 3rd "free" sale, and this represents a sale of 3 identical goods at a discounted price. In these cases, the Consideration relates to all goods and services supplied, and it must be distributed among all goods and services accordingly. A Nominal Supply does not arise in this case.

Example (28):

Aziz Electronics Company offers a promotional offer during March 2023. Through this promotional offer, a Customer who purchases any new laptop at a price exceeding SAR 3,000 receives a printer without any additional cost.

This promotional language describes this printer as "free" for customers who purchase a new laptop. The printer can be purchased individually for SAR 460 (including VAT).

In this example, the facts indicate that the Customer pays a single price but expects to receive 2 specific goods, which are the laptop and the printer. Although the promotional language uses the word "free," in reality, the Supplier effectively provides a discount on both goods. A customer resident in the Kingdom purchased this offer and obtained a laptop for SAR 3,450 paid in cash for the laptop and the printer. Aziz Electronics issued a Tax Invoice reflecting the sales. Below are excerpts from this invoice:

Details	Quantity	Unit Price (Excluding Tax)	VAT Rate
Laptop model number 45678	1	3,000	15%
Basic printer model number P100	1	400	15%
Discount: March laptop offers			**400**
Total (Excluding VAT)	**3000 SAR**		
VAT at 15%	450		
Total Paid	**3,450 SAR**		

Aziz Electronics Company includes Output Tax in its VAT Return of SAR 450 for this sale. Since a Nominal Supply does not occur in this case, the company may not include any other Output Tax.

6.3.3 Goods or Services supplied independently without Consideration

If a good or service is provided without Consideration payable and independently of any other supply provided by a taxable Person to the same recipient, then this supply is considered a supply without Consideration. If a good or service appears in a Tax Invoice with a corresponding unit price or zero value for the service, this may indicate that the Supplier intends to provide a supply without Consideration, independent of any other goods or services appearing in that invoice. An independent supply of goods or services by a taxable Person without Consideration is treated as a Nominal Supply,[35]provided that:

- The taxable Person does not receive any Consideration (whether monetary or non-monetary) from the recipient or any third party.
- The taxable Person deducts the Input Tax related to those goods and services.
- The goods or services do not fall below the limit specified by law regarding low-value goods.[36]

The value of assumed supplies that are treated as supplies in accordance with the provisions of the agreement, system, and regulations shall be the purchase value or cost. In cases where it is not possible or impossible to determine the purchase value or cost, the value of those supplies shall be their fair market value on the date of the assumed supply and in accordance with the rules for determining fair market value.

Example (29):

A lawyer in the Kingdom provides a wide range of legal services to an individual client during 2022, and charges more than SAR 100,000 for his services provided during this year. As an expression of thanks and gratitude, the lawyer provides a watch worth SAR 15,000 (including VAT) as a gift to the client.

Clearly, this gift represents a separate supply not related to any goods or services provided by the lawyer. If the lawyer claimed Input Tax on the purchase transaction, he must calculate Output Tax on the basis of the value of the watch (which is SAR 1,956.52, calculated according to the formula SAR 15,000 x 15 / 115 in his Tax Return.

Alternatively, if the lawyer did not deduct any Input Tax on the purchase process, he is not required to include the Nominal Supply in his Tax Return.

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(35). Article 8, Unified VAT Agreement

(36). Article 15, Implementing Regulations

7. Vouchers

7.1 What is a "Qualifying Voucher?"

Vouchers are physical or electronic documents that entitle the Customer to redeem/use them as Consideration for goods or services from a Supplier or a group of Suppliers. A Voucher is not considered a form of currency, but it can be exchanged and used as non-monetary Consideration (and often displays an equivalent monetary value). Usually, a Voucher has commercial value only due to the Supplier's undertaking to allow its redemption as Consideration for goods and services.

Voucher is defined for VAT purposes as follows:

"A Voucher is considered an instrument if there is an obligation to accept it as Consideration or part of the Consideration for a supply of Goods or Services, and where the nature of the Goods or Services to be supplied or the identity of the Supplier are specified in the Voucher or in the related documents."(37)

Vouchers that meet this definition are subject to special tax rules. For the purpose of this Guideline, the Vouchers included in this definition are Qualifying Vouchers. Other commercial documents may be described as "Vouchers for promotional purposes," but they are not subject to special VAT rules. These "Non-Qualifying Vouchers" will be explained in detail in Section 5.7

The following points must be considered regarding Vouchers:

1. There are no specific specifications for the form of the Voucher, as it can be a physical document or an electronic card that includes a stored monetary amount.
   Example: An electronic gift card or a prepaid phone card are Qualifying Vouchers, provided other criteria are met.
2. Vouchers must be redeemable as Consideration for the provision of goods or services. The Voucher holder must be able to choose to redeem the Voucher for a supply of his choice and not a pre-determined supply.
   Example: A Voucher that grants a person a stay in a hotel is a Qualifying Voucher. Meanwhile, a "Voucher" that grants a person a stay in a specific hotel on a specific date is not a Qualifying Voucher.

(37). Article 19(3), Implementing Regulations

3. A Voucher that contains an expiration date can be considered a Qualifying Voucher, provided it is redeemable by the recipient for goods and services starting from the date of issuance or supply of the Voucher.
4. Vouchers that only entitle the recipient to obtain a discount on a supply cannot be used as Consideration for that supply, and therefore are not considered Qualifying Vouchers.

VAT must be imposed on the primary supply of goods or services when the value of the "Voucher" is redeemed as Consideration for the goods or services.

7.1.1 Face Value Voucher

Vouchers often include equivalent monetary amounts, allowing the use of this amount as Consideration for a supply or multiple supplies. Vouchers that have a monetary amount are defined as "Face Value Vouchers".

7.2 Issuance of the Voucher

When a person issues a new Voucher, whether for Consideration or without Consideration, it is not considered a supply for VAT purposes.[38] A Voucher can be issued by the Supplier who will honor it (e.g., a Voucher issued by a retailer allowing the use of the Voucher in any of its retail stores) or by a third party (e.g., a mall management company that issues a Voucher that can be used in any store in the mall).

As a measure to prevent abuse of the special Voucher rules, a supply of services arises in any case where the Consideration paid for the Face Value Voucher is higher than its Face Value.[39] This scenario is not expected to occur in standard commercial practices.

(38). Article 19(1), Implementing Regulations

(39). Article 19(2), Implementing Regulations

7.3 Supply of the Voucher

The supply of a physically existing Voucher is not considered a supply for VAT purposes, unless the Consideration payable for the Face Value Voucher is higher than its Face Value. If the amount paid for the voucher exceeds its nominal value, the price difference is considered an additional supply of services and is subject to value-added tax.

Example (30):

Al-Hamdan Trading Group holds exclusive distribution rights for a specific brand of electronic devices. As a promotional strategy, the group issues 1,000 Vouchers in October 2024 that grant customers a redemption of SAR 500 for this product to an intermediary company, at SAR 480 each. Since the Consideration is less than the Face Value, it is not considered a supply for VAT purposes. In January 2025, the intermediary company, sold 200 Vouchers to a local marketing company for SAR 495 per Voucher. This is not considered a supply for VAT purposes, as the Consideration is less than the Face Value. In January 2020, the marketing company, sold 200 Vouchers individually to the public after launching a new device in the Saudi market. Due to the popularity of the products at that time, a Consideration of SAR 510 was charged for each Voucher. The additional Consideration of SAR 10 (higher than the stated Face Value) is considered a supply of services. The marketing company must add the relevant portion of the Output Tax (SAR 1.30) to the value of this additional supply.

7.4 Redemption of a Voucher for Goods and Services

When the value of Vouchers is redeemed for a supply of goods and services, VAT is calculated at the appropriate rate on the goods and services provided, as the Voucher constitutes non-monetary Consideration for that supply. If the Voucher is a Face Value Voucher, the value of the non-monetary Consideration will be calculated at the amount of the Face Value used.

Example (31):

The customer uses a voucher issued by a bookstore in the amount of SAR 100 to purchase a book in the amount of SAR 250, and pays the difference of SAR 150 in cash. The bookstore calculates the Output Tax on the supply based on the Face Value Voucher (SAR 100) in addition to the Monetary Consideration (a total amount of SAR 250). If the Voucher is not a Face Value Voucher, its value is based on the Fair Market Value of the goods and services provided.

Example (32):

On 14th January, a customer uses a Voucher issued by a car repair company, which entitles him to a free luxury car wash in the company's garage. The basic retail price for a car wash is usually SAR 30, but the company offers a reduction during January, which gives all customers a Discounted Price of SAR 28. Consequently, the Fair Market Value of the Voucher amounts to SAR 28, and VAT must be calculated based on this non-monetary Consideration.

7.4.1 Credit Balance Activation

A Voucher that entitles a person to a monetary amount of credit balance or a specific quantity of goods or services is used when the "Voucher" is activated and applied to a specific customer account to be redeemed from a known Supplier.

Example (33):

A mobile service provider in the Kingdom of Saudi Arabia issues a prepaid Voucher, allowing any customer to redeem the value of the Voucher for 50 GB of mobile data, during a period of 6 months from the start of activation; the issuance of this Voucher for Consideration is not considered a supply. If the Voucher is traded after issuance, supplies of this Voucher are not subject to Tax.

The activation of this voucher and the transfer of the data allowance to the customer's account is considered its redemption. The VAT becomes due based on the value of the data at the time of activation.

7.5 Treatment of Non-Qualifying Vouchers

"Non-Qualifying Vouchers" are other commercial documents described as "Vouchers" but which do not fall under the definition of a Voucher for VAT purposes. A Non-Qualifying Voucher is treated under the basic VAT rules. VAT is calculated on the Consideration paid or due (if any) in the issuance or provision of a Non-Qualifying Voucher as a supply of services. Upon redemption, the Supplier must calculate VAT based on the total of any amount paid for the supply of goods and services.

Examples of Non-Qualifying Vouchers include:

1. A document that grants the Customer a discount on the supply of goods and services. These documents are often issued for free by the Supplier as a promotional advertisement and reflect the Supplier's commercially accepted discount. Such Non-Qualifying Vouchers do not involve a Fair Market Value. If a Customer "redeems" a discount voucher, this is simply treated as a discount on the Consideration.
2. A document proving the existence of an advance payment to obtain a known supply of goods and services, or for a supply to a known Customer. For example, a Non-Qualifying Voucher issued by an events company in April 2023 for SAR 120, allowing the Customer to attend a lecture by a guest speaker on 17th September 2023. This is considered an advance payment in April for providing a service (the event) to be held in September, which requires including VAT in the company's Tax Return in April 2023.

8. Loyalty Programs

A loyalty program aims to incentivize customers to make more purchases in the future. This can be achieved through reductions, free goods and services, and other rewards or exclusive benefits. There are many different types of loyalty programs offered by suppliers of goods and services or through specialized loyalty program operators. The tax treatment of any loyalty program depends on individual cases. This Section of the Guideline provides information on general concepts and examples, but it is not exhaustive. For more details, you can refer to the special tax bulletin on VAT treatment for loyalty programs available on the Authority's website.

8.1 Purchase through Stamped Cards

If a sufficient number of goods or services are purchased at the basic price and the purchase is proven through these stamped cards, the Customer is usually entitled to obtain a free good or a free service upon surrendering the completed card. This type of program clearly links the provision of the "last" or "free" good or service with the Consideration paid for previous purchases.

Example (34):

A well-known example is a coffee card, where the Customer is entitled to obtain the 10th cup of coffee from the Supplier for free, after purchasing 9 cups over time at a basic price of SAR 20, inclusive of VAT, and acquiring a stamp for each purchase.

In this example, the Customer who completes the card and obtains a "free" coffee is effectively purchasing 10 cups of coffee over time at a discounted price of SAR 180 (the basic price for 9 cups of coffee).

In this case, it is acceptable that a Nominal Supply does not occur regarding the provision of the "free" good or service upon surrendering the completed purchase card, since Consideration for this good or service has been paid in advance from previous purchases. Similarly, surrendering the card is not a form of non-monetary Consideration for the supply.



In the context of the coffee card example, the Supplier will collect VAT on the sales of the first 9 cups of coffee (SAR 27, which is the VAT for the value of SAR 180 paid for the first 9 purchase transactions) and report that as the Output Tax, and therefore has no additional tax obligation on providing the 10th free coffee.

In most cases, the purchase stamp card does not have a separate commercial value without the Customer having made previous purchases, and the completed card is not usually sold to other customers. Therefore, the purchase stamp card will not be viewed as a Voucher in standard commercial cases.

8.2 Loyalty Points - Single Supplier System

- Loyalty points are often used by retailers and service providers to incentivize purchases. Points are issued to customers when they purchase goods and services, or in other cases (for example, a Customer may "earn" reward points when referring another customer). Points are generally held on the Customer's personal account, and once the Customer has acquired sufficient points, these points can be exchanged for free goods or services.

A "single supplier" points program involves points issued by one Supplier, allowing for the redemption of goods or services provided by that Supplier. A third party may manage the loyalty points system on behalf of the Supplier. The common features of a single supplier loyalty points system are as follows:

- Usually, the Customer "earns" points by purchasing or performing an activity of non-material value (such as referring a customer). In these cases, the Customer does not provide a supply in exchange for the issuance of points.
- The Customer purchases goods or services as a first step, and points are granted as a result. This is the only supply of the basic goods or services. In these cases, the Supplier does not provide separate points.
- Usually, loyalty points cannot be traded to other persons and have no commercial value unless the original Customer redeems them under the terms of the program. In these cases, the surrender of points by the Customer in exchange for a reward or reward service is not considered a separate Consideration for the supply.

- The provision of a free good or service is linked to points acquired for previous purchases from the same Supplier, which are subject to Tax at the same tax rate. If this link can be shown as part of the points program, then providing the good or service as a reward without any additional Consideration does not constitute a Nominal Supply.
- The goods or services provided to the Customer as a reward can be either the usual goods or services sold by this Supplier or a different type of service or good. In both cases, the reward element is provided in the context of the Supplier's usual economic activity and to incentivize future sales. The purchase or production of the reward element is considered eligible for Input Tax deduction in accordance with other general business costs.

Example (35):

A retailer operates a single supplier loyalty system under which electronic cards are issued to customers, providing a loyalty point for every SAR 100 of purchases made when showing the card number. Ahmed is a regular shopper in the store and joined the loyalty plan in January 2021. By March 2022, he had acquired 53 loyalty points (from total purchases of SAR 5,300 including VAT).

Ahmed visited the merchant's website and saw that he could use 25 points for a new children's toy, usually worth SAR 120. He visited the retailer and requested the delivery of 50 points in exchange for 2 toys for his children. The "reward" goods are linked to Ahmed's previous purchases from the same retailer.

Therefore, providing the reward goods relates to the Consideration provided for those purchases. The retailer does not make a Nominal Supply when providing the toys to Ahmed.

8.3 Multi-Party Loyalty Systems

More complex loyalty point systems include multiple "participating" suppliers. Under these systems:

- Points can be earned by participating customers as a result of purchases from multiple suppliers participating in the system.
- Points cannot be traded or transferred by a participating customer to another person once the points are obtained.
- Points earned in relation to all purchases usually have an equivalent value in the final redemption (all points carry the same actual "value" within the system) once issued.
- Points issued to participating customers in relation to purchases from one supplier may be redeemed for goods or services provided by that supplier or from another participating supplier.
- This system can be operated by a participating supplier or by a third-party operating company (which does not provide goods or services to the participating customers).

The tax treatment depends on the precise details of each loyalty system. Suppliers and operators of a system must analyze the appropriate treatment and may choose to establish special provisions in individual cases. As a default step, the Authority will assume the following characteristics for a multi-party loyalty system:

Acquisition of Points from Purchases

The supply of goods and services with points "earned" from this purchase under the usual terms of a multi-party loyalty system is considered a single supply of goods and services for the total Consideration collected. No additional supplies are provided upon the issuance of points for the supply of goods or services.

Redemption of Points for Rewards

Unlike the single supplier system, the provision of goods and services upon the redemption of points in a multi-party loyalty system cannot be viewed as linked to the supplies through which points were collected.

When participating suppliers provide a supply of goods and services upon the redemption of points by the Customer, the Supplier must calculate VAT on the supply provided to the Customer. The Value of Supply depends on whether the participating Supplier receives any direct Consideration for that supply (whether monetary or non-monetary) or provides a supply without any Consideration.

Payments between Participants

Multi-party loyalty systems usually involve payments between participating suppliers or between operators and participating suppliers. The VAT implications of these payments must be determined on a case-by-case basis, based on the primary supply of goods or services associated with those payments.

9. Deduction of Input Tax

9.1 General Provisions

A person registered for VAT purposes may deduct Input Tax imposed on the goods and services they purchase or receive in the course of practicing their economic activity. Input Tax may be deducted on:

- VAT imposed by a supplier registered in the Kingdom.
- VAT self-calculated by a person registered for VAT purposes according to the reverse charge mechanism.
- VAT on imports paid to the Authority upon importing goods into the Kingdom.

As a general rule, Input Tax relating to supplies exempt from VAT may not be deducted.
In addition, Input Tax may not be deducted for any expenses incurred that do not relate to the economic activity of the taxable Person (this includes certain forms of restricted expenses such as entertainment services, cultural services, catering services, and restricted vehicles)[40], or any other costs related to supplies exempt from VAT. Input Tax acts as a credit balance included in the VAT Return and is deducted from the VAT imposed on supplies (the Output Tax) made during that period.

(39). Article 50, Implementing Regulations - Restricted Expenses List

Input Tax may only be deducted if the taxable Person has a Tax Invoice or customs documents proving the value of the Tax due or any alternative document proving the amount of Input Tax paid or payable, provided the Authority approves.[41]

9.2 Proportional Deduction related to Input Tax

Input Tax relating to the taxable Person's supplies that are exempt from VAT may not be deducted, such as exempt financial services or exempt residential rent. In the event the taxable Person's supplies include supplies subject to VAT and others exempt from VAT, that person may deduct the Input Tax relating to the part subject to VAT. If the taxable Person incurs general expenses or costs in exchange for making supplies subject to VAT and others exempt from Tax, they must, in this case, accurately divide the expenses and costs to determine the costs related to the part subject to VAT. Input Tax is determined based on the following provisions: [42]

Input Tax directly related to sales transactions subject to VAT	Full deduction
Input Tax directly related to sales transactions exempt from VAT	No deduction
General expenses and Input Tax that cannot be directly allocated	Proportional deduction based on the division

The general expenses/costs paid by a person subject to VAT in exchange for making supplies subject to VAT and others exempt must be divided to correctly reflect the use of those costs in the taxable part of the taxable Person's activities.

The proportional deduction for the values of supplies subject to VAT made during a specific year is calculated using the following default method:

$$\frac{\text{Value of taxable supplies made by the texable person during the past calender year}}{\text{Total value of taxable supplies and exempt supplies made by the taxable person during the past calender year}}$$

(41). Article 49(7), Implementing Regulations

(42). Article 51, Implementing Regulations

The aforementioned method does not include supplies of capital assets made by the taxable Person, as they would distort the use of Input Tax. The Authority may agree to alternative methods for calculating the default proportional deduction other than the value of supplies in cases where they better reflect the actual use of the incurred VAT. Further information regarding VAT deduction and partial VAT refund is within the Guideline for VAT Deduction.

10. Tax Obligations

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

If a person is unsure of their obligations, they must contact the Authority through the website **zatca.gov.sa** or other communication channels, or they may seek external advice from a qualified consultant. The following is an overview of the most important tax obligations stipulated in the Law and the Regulations.

10.1 Issuance of Invoices

The Supplier must issue a Tax Invoice for each supply subject to VAT for the benefit of another person registered for VAT purposes or for any legal person, or issue a Simplified Tax Invoice if the value of the supply is less than SAR 1,000 or if the supplies are to natural persons who are not taxable, no later than 15 days after the end of the month in which the supply occurred.

The Tax Invoice must clearly include certain data and information, such as the invoice date, the Supplier's Tax Identification Number (TIN), the taxable amount, the applied tax rate, and the amount of VAT charged.[43] If different rates are applied to the supplies, the value of each item must be determined separately, as well as the VAT applied to that item.

A Tax Invoice may be issued in the form of a commercial document (such as a ticket receipt) provided that this document includes all the requirements for issuing a Tax Invoice and a Simplified Invoice contained in the Implementing Regulations of the Law.[44]

Further information regarding Tax Invoice requirements can be found in the General VAT Guideline or the Guideline for Tax Invoices.

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(43). For further details, please see the Tax Invoices Guideline and Article 50, Implementing Regulations

(44). Article 53, Implementing Regulations

10.2 Filing VAT Returns

Every person registered for VAT purposes, or the person authorized to act on their behalf, must submit a VAT Return to the Authority for each monthly or quarterly Tax Period (as the case may be). The Tax Return is considered a self-assessment by the taxable Person of the Tax due for that period. Monthly Tax Periods are mandatory for taxable Persons whose annual revenues exceed SAR 40,000,000, while the regular Tax Period for other taxable Persons is 3 months.

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

If the Tax Return results in a Tax entitlement refundable to the taxable Person or if the taxable Person has a credit balance for any reason, the taxable Person may claim a refund of this amount after submitting the Tax Return or at any subsequent time during the following 5 years by submitting a refund request to the Authority. The Authority will review those requests and pay the amount due for accepted refund requests directly to the taxable Person.[45]

10.3 Record Keeping

All taxable Persons must maintain appropriate tax records related to the calculation of VAT for audit purposes. This includes any documents used to determine the VAT due on each transaction and in the VAT Return. This generally includes the following:

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

Records may be kept on paper or electronic form, provided the conditions specified in the Implementing Regulations of the Law are met. These records must be available to the Authority upon request.

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(45). Article 69, Implementing Regulations

All records must be kept at least for the basic retention period, which is 6 years. The minimum retention period extends to 11 years for invoices and records related to movable Capital Assets, and 15 years for invoices and records related to immovable Capital Assets.[46]

10.4 VAT Registration Certificate

A taxable resident Person registered with the Authority in the VAT system must place their Tax Registration Certificate in their main place of business and all its branches and electronic stores. where it is visible to the public.

In the event of a violation, the violator will be subject to the penalties stipulated in the Law.

10.5 Correction of Previous Errors

If it becomes clear to the taxable Person that there is an error or inaccuracy in the amount included in their submitted Tax Return, or if they fail to comply with any tax obligation, they must notify the Authority within twenty 20 days from the date of their knowledge, and this is done by correcting the tax return previously submitted to the Authority.

If the error is of the type that results in a tax difference exceeding a net value of SAR 15,000, they may correct the error by including that amount, with a deduction from the net tax due in any tax return after the date the error was discovered.

As for small errors that result in a tax difference of less than SAR 15,000, the error can be corrected by including that amount, in excess, in the net tax due that must be reported in the tax return submitted to the authority for the period during which the error was discovered.[47]

(46). Article 66 and Article 52, Implementing Regulations

(47). Article 63, Implementing Regulations

11. 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[48].

Non-Field Violations

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

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

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

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

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

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

First: Increase of the Penalty

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

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

Second: Reduction of the Penalty

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

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

Third: Rules for Determining Taxable Person Compliance

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

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

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

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

Fifth

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

Field Violations

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

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

12. 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.

13. Contact Us

For more information about VAT treatment, kindly visit our website: **zatca.gov.sa**, or contact us at the following number: 19993

14. Frequently Asked Questions

1. Is VAT calculated on the discounted price offered by the taxable Person to the Customer?

VAT is calculated based on the total amount paid or payable for the supply of goods or services. If you gave the Customer a discount and he paid less, VAT must be calculated and declared in relation to the Discounted Consideration.

2. How is VAT affected when the taxable Person offers a cash discount to the Customer??

If the reduction relates to previous supplies of goods or services, this is generally considered an adjustment to the Consideration for these supplies. If the Tax Invoice has already been issued to the Customer, the taxable Person must issue a credit note to record the change in Consideration and make an adjustment to the VAT contained in the return. If the Customer deducted Input Tax, they must adjust the deduction to reflect the change in Consideration.

3. What is the tax treatment if a taxable Person provides a discount on a supply of goods in exchange for the Customer providing a service to them?

The service provided by the Customer is a form of non-monetary Consideration provided by the Customer. The value of the non-monetary Consideration must be added to the monetary (Discounted) Consideration to calculate the VAT payable by the taxable Person.

The Authority agrees to consider that any small action performed by the Customer of low value (such as bringing reusable plastic bags) to obtain a discount does not constitute non-monetary Consideration. In these cases, VAT must be calculated based on the discounted price.

4. What is the tax treatment if a taxable Person provides a free product to customers if they purchase 2 other products of higher value?

In this case, there is no independent supply of goods without Consideration. The taxable Person offers to supply all 3 products at a discounted price. The taxable Person must reflect this on the Tax Invoice by showing the individual unit price for all items and discounting the total amount due. In this case, VAT is due only based on the total amount payable.

5. A taxable Person agrees to perform a free service for their regular Customer as a gesture of goodwill. What is the VAT treatment?

In this case, the taxable Person performs a service independent of any other supplies of goods and services, and without any Consideration. If the taxable Person deducted Input Tax on the direct inputs for this service, it will be considered a Nominal Supply for VAT purposes, at the purchase value or the cost to the Supplier (considering the minimum limit for low-value services).

6. A wholesaler provides goods (purchased from a distributor in the Kingdom of Saudi Arabia) to selected customers in the Kingdom of Saudi Arabia for free, as part of a promotional offer by the international manufacturer of those goods. The international manufacturer agrees to pay a specific amount for each good provided during the promotional offer. Does VAT arise on the provision of free goods in this case?

Yes. This is likely a supply of goods for Consideration, which is paid by the international manufacturer (and not by the Customer) as Third Party Consideration. The wholesaler is responsible for VAT on the supply of goods taking place in the Kingdom of Saudi Arabia, calculated based on the Consideration received from the international manufacturer.

7. A taxable Person grants a retail sale Voucher to customers with a Face Value of SAR 100, and it is used as a partial payment for the sale of goods (at SAR 150), with the remainder paid in cash. How is VAT calculated on the sale?

The supply of goods is subject to VAT based on the full price of SAR 150. Vouchers are considered non-monetary Consideration for the supply of goods.

8. A price discounted at SAR 1,000 was agreed between the Supplier and the Customer to be paid for the supply of a used machinery unit, which has a Fair Market Value estimated at more than SAR 10,000. Must VAT be calculated on this price?

If the Supplier and the Customer are not Related Persons, they are entitled for VAT purposes to commercially agree on the cash discount amount of SAR 1,000. However, care should be taken to determine if there is any non-monetary Consideration. If the Supplier and the Customer are Related Persons, the supply may need to be valued at Fair Market Value.



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