VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline
on Tax Groups
under VAT Provisions

Third Version | May 2026

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

The Zakat, Tax and Customs Authority has prepared and issued this Guideline to provide clarification on certain treatments and procedures related to the application of the regulatory provisions that were in force at the time this Guideline was released. The material presented in this Guideline should not be interpreted as modifying, replacing, or amending any of the applicable laws or regulations in force within the Kingdom.

The Authority affirms that, where relevant, it will apply the interpretative treatments set out in this Guideline in accordance with the applicable regulatory provisions. Should any clarification or content contained in this Guideline be updated without a corresponding amendment to the underlying regulatory provisions, the revised interpretative guideline will apply only to transactions conducted after the date on which the updated version of the Guideline is published on the Authority's official website.

Amendment log

#	Edition No.	Amendment Date	Section/ Item	Amendment Type	Amendment Description	Remarks
1	3	May 2026	Amendment	Full guideline	Updating in accordance with the amendments to the implementing Regulations of the Value Added Tax (VAT) Law, issued under Board of Directors Resolution No. (01-06-24) dated 17/05/1446H, corresponding to 19/11/2024	-

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1. Introduction

1.1. Application of the VAT Law in the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia ratified the Unified Agreement for VAT of the Gulf Cooperation Council States ("Gulf Cooperation Council") pursuant to Royal Decree No. (M/51) dated 3rd Sha'ban 1438H/30th April 2017 ("Unified Agreement for VAT").

Based on the provisions set out in the Unified Agreement for VAT, 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 2017G ("VAT Law"), as well as the Implementing Regulations of the VAT Law pursuant to Resolution No. (3839) dated 14th Dhu al-Hijjah 1438H/5th September 2017 issued by the Board of Directors of the General Authority of Zakat and Tax - formerly - the Zakat, Tax and Customs Authority - currently - ("Implementing Regulations of the Law"), and in the form amended by subsequent Board Resolutions.

1.1.1 Zakat, Tax and Customs Authority (ZATCA)

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

The Authority is responsible for Zakat collection, the collection of taxes and customs duties, and achieving the highest levels of compliance among taxpayers in accordance with best practices and with high efficiency. The Authority also seeks to enable the Kingdom to become a global logistics hub by facilitating trade, safeguarding national security, and regulating and managing all activities related to customs operations and customs ports, in a manner that ensures their advancement to the highest levels of efficiency, productivity, and competitiveness. This is achieved through the provision of high-quality services focused on the customer and delivered in accordance with best practices.

1.1.2 What is VAT?

VAT is an indirect tax imposed on the import and supply of goods and services at each stage of production and distribution, subject to certain exceptions. VAT is applied in 160 countries world-wide. Persons subject to VAT shall undertake all of the following:

- Collect VAT on each taxable sale in accordance with the prescribed percentage rate
- Pay VAT to the suppliers from whom they have received goods or services, where applicable, on each taxable purchase at the prescribed percentage rate

When persons subject to VAT sell a good or provide a service, they must charge tax at a rate of 15% (assuming that the standard rate applies to those supplies), which is added to the final selling price. Persons subject to tax must account separately for the 15% collected from taxable sales from their revenues in order for it to be subsequently remitted to the Authority. The VAT collected by persons subject to tax on their sales is referred to as Output Tax.

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

1.2 This Guideline

This Guideline aims to provide further clarification regarding tax groups and the related details. It is addressed to persons eligible to apply for the formation of tax groups.

2. Definitions of Key Terms

For VAT purposes, a VAT group is referred to in this Guideline as a VAT Group or Tax Group: a group consisting of 2 or more legal persons resident in the Kingdom who are treated as a single taxable person for VAT purposes(1) and who are registered for VAT under a separate and new Tax Identification Number issued by the Authority to the representative member on behalf of the group(2).

Representative Member: a person subject to VAT within the VAT Group who is appointed by the group and submits the application for the formation of the VAT Group to the Authority. The Representative Member shall act as the representative of the VAT Group and shall be primarily responsible before the Authority for all obligations and rights arising for the group on behalf of all its members, without prejudice to the joint and several liability of the remaining members of the group among themselves for all tax obligations, penalties, and any other obligations imposed pursuant to the Law and the Implementing Regulations that arise during the period of their membership(3).

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(1) Article 4 - Unified Agreement for VAT.
(2) Article 11(6) - Implementing Regulations
(3) Article 11(1) - Implementing Regulations

Legal Person: means a company or any other entity possessing legal personality in accordance with the Companies Law in the Kingdom of Saudi Arabia[4]. A natural person shall not be considered a legal person.

Ownership and Control of Capital and Voting Rights: One of the requirements for the formation of a VAT Group is that 50% or more of the capital, voting rights, or market value of each legal person within the group is owned - directly or indirectly - by the same legal person, or by the same legal persons, or that one legal person within or outside the group has the power to control and exercise authority over the other persons within the VAT Group[5].

Joint Liability: All members of the VAT Group shall be jointly and severally liable for the payment of all tax obligations, penalties, and any other obligations imposed pursuant to the Law and the Implementing Regulations that arise during the period of their membership in the group[6].

3. Economic Activity and Registration for VAT Purposes?

3.1 Who is a Person Carrying on an Economic Activity?

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

Natural persons and legal persons carrying on an economic activity must register for VAT purposes upon meeting the registration requirements set out in the tax legislation. Such persons must also collect the VAT applicable to their activities and remit the VAT collected to the Authority.

Holding companies that are required or eligible to register as a taxable person may do so where they carry on economic activities themselves. The mere holding of shares indirectly and the receipt of dividend income shall not, in itself, constitute an economic activity.

Further details on economic activity will be addressed in the Economic Activity Guideline.

(4) Article 9 - Companies Law issued in 1443H/2021-2G
(5) Article 10(2) - Implementing Regulations
(6) Article 11(1) - Implementing Regulations

3.2 Mandatory Registration

Registration shall be mandatory for all persons whose annual revenues exceed a specified registration threshold. Where a person's taxable supplies during a period of 12 months exceed SAR 375,000 ("Mandatory Registration Threshold"), that person must register for VAT purposes[7], subject to the transitional provisions set out in the Implementing Regulations of the Law relating to the Mandatory Registration Threshold during the transitional period.

Taxable supplies for VAT purposes shall not include the following[8]:

- Exempt supplies: such as exempt financial services or residential rent exempt from tax.
- Supplies that fall outside the scope of VAT in any Member State of the Gulf Cooperation Council.
- Proceeds from the sale of capital assets: capital assets are defined as assets allocated for long-term business use[9].

In specific cases, other provisions shall apply to mandatory registration:

- Non-residents of the Kingdom of Saudi Arabia who are obligated to pay VAT in respect of 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 required to collect and remit VAT[10].

Further information regarding mandatory registration for VAT purposes is available on the website **zatca.gov.sa**.

3.3 Voluntary Registration

A person resident in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses exceed SAR 187,500 ("Voluntary Registration Threshold" (1)) during the last 12 months may apply for voluntary registration for VAT purposes[11]. Voluntary registration for VAT purposes is preferable where the person wishes to claim a refund of VAT incurred on taxable expenses prior to issuing invoices or making a subsequent supply.

(7) Article 50(1)(2) - Unified Agreement for VAT and Article 3 - Implementing Regulations
(8) Article 52 -Unified Agreement for VAT.
(9) Article 1 - Unified Agreement for VAT.
(10) Article 5 - Implementing Regulations.
(11) Article 7 - Implementing Regulations and Article 51 - Unified Agreement for VAT..

Example (1):

Golden Falcon Company is a Saudi company contracted to provide services in the city of Riyadh and will begin issuing invoices for amounts due starting from January 2020. However, the company incurs significant costs amounting to SAR 2,000,000 from local suppliers during the first quarter of 2019 in respect of feasibility studies and design plans before issuing invoices to the client.

Accordingly, Golden Falcon Company will be able to register on a voluntary basis, as its annual taxable expenses have exceeded the Voluntary Registration Threshold for VAT.

Further information regarding voluntary registration for VAT purposes is available on the website **zatca.gov.sa.**

4. Joining a VAT Group

4.1 Persons Eligible to Join a VAT Group

Two or more legal persons may apply to register as a VAT Group for VAT purposes where they meet the following requirements:

a. Each of them must be resident in the Kingdom and have the right to register as a taxable person in accordance with the provisions of these Implementing Regulations.

b. 50% or more of the capital, voting rights, or market value of each legal person within the group must be owned - directly or indirectly - by the same legal person, or by the same legal persons, or one legal person within or outside the group must have the power to control and exercise authority over the other persons within the VAT Group.

c. None of the members of the group may be licensed to operate in any special zone enjoying customs suspension status in accordance with the relevant statutory provisions applicable to such zones, and/or be a member of another VAT Group.

d. The applicant or any member of the group must not be a person eligible for refund in accordance with the provisions set out in Article 70 of these Implementing Regulations. The following persons shall be excluded from this condition:

- A person deemed eligible for refund in their capacity as a licensed real estate developer whose licensed real estate activity is limited exclusively to making real estate supplies by way of sale and transfer of ownership solely to its employees.

- A person deemed eligible for refund as a donor in public benefit projects.

All requirements set out in Paragraph (1) of this Article must continue to be satisfied by all members of the group throughout the period of the VAT Group's registration as a taxable person.[12]

These criteria will be explained in further detail below.

4.1.1 Legal Person Eligible to Register as a Taxable Person in the Kingdom

The formation of VAT Groups is limited to legal persons only, as they are entities established or existing and recognized under the laws of the Kingdom of Saudi Arabia and possess independent legal personality. Accordingly, individuals or joint ventures that do not possess legal personality may not join or form a VAT Group.

The legal person must be resident in the Kingdom of Saudi Arabia for VAT purposes and have the right to register as a taxable person in accordance with the provisions of the Implementing Regulations of the VAT Law. This means that the legal person must either be an entity established in the Kingdom of Saudi Arabia or have a fixed establishment within the Kingdom of Saudi Arabia.

Each legal person must be eligible or required to register as a person subject to VAT. This shall be the case where the legal person carries on an independent economic activity with the intention of generating income and is registered for VAT purposes in the Kingdom or deemed required to register[13].

Economic activity is defined as "an activity carried out on a continuous and regular basis, including commercial, industrial, professional, or service activities, or any use of tangible or intangible property, or any other similar activity"[14].

Dormant entities that do not carry on their own economic activity may not join a VAT Group. Holding companies may join a VAT Group only if they are required or eligible to register as a taxable person. A legal person may only be part of one VAT Group.

(12) Article 10 - Implementing Regulations
(13) Article 2 - Implementing Regulations
(14) Article 1 - Unified Agreement for VAT.

The following cases illustrate situations in which the formation of a VAT Group is not permitted:

✗ Establishments that are non-resident in the Kingdom	✗ Joint ventures or non-incorporated entities	✗ Individuals
✗ An entity may not join more than one VAT Group	✗ Holding companies that are not required or eligible to register for VAT	✗ Dormant entities that are not required or eligible to register for VAT.

4.1.2 Common Ownership or Control

To satisfy this requirement:

1. A single person or a group of persons must own - directly or indirectly - 50% or more of any of the following:
    - The capital of each member of the proposed group;
    - The voting rights of each member of the proposed group;
    - The market value of each member of the proposed group;
2. Alternatively, one legal person within or outside the group must have the power to control and exercise authority over the other persons within the VAT Group.

Capital refers to the issued share capital of a company incorporated with shares, or the equivalent capital of any other legal person.

Voting rights refer to the ability of the owner to influence the activities of the group through voting rights attached to the company's shares, which may be exercised through the General Assembly. The percentage of owned capital may differ where shares or capital carry different rights.

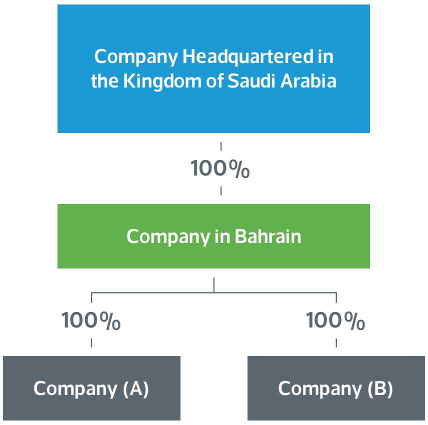
Control is not defined within the context of Article 10 of the Implementing Regulations and shall mean the ability of one legal person within or outside the group to influence the actions or decisions of another person within the group, whether directly or indirectly.

The requirement of owning 50% or more of a company means that a company owned by 2 shareholders, each holding 50% of its shares, may join a single VAT Group through one of the shareholders. A company may not join 2 VAT Groups.

It is not necessary for the person or persons who own or control the members of the group to be part of the group or to be eligible to join a VAT Group, provided that the remaining members of the group are eligible to join the VAT Group. For example, the ultimate owner may be resident or non-resident in the Kingdom of Saudi Arabia.

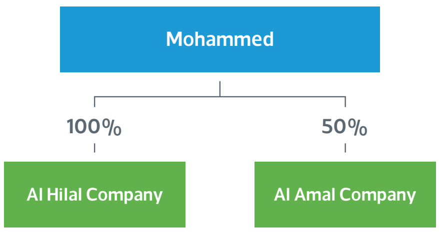
Ownership may be acquired directly (where the owner directly holds the shares) or indirectly (where the ultimate owner holds beneficial ownership through an intermediary company). Persons eligible to join a VAT Group are not obligated to do so, as the formation of VAT Groups is an optional right.

Example (2):



A company headquartered in the Kingdom of Saudi Arabia owns 100% of the capital of a company resident in Bahrain. The Bahrain company owns 100% of the capital of Company (A) in the Kingdom of Saudi Arabia and 100% of Company (B) in the Kingdom of Saudi Arabia. Provided that each of them is eligible or required to register in the Kingdom and carries on an economic activity in the Kingdom, the company headquartered in the Kingdom of Saudi Arabia, Company (A), and Company (B) shall be eligible to form a VAT Group. The company resident in Bahrain may not join this VAT Group as it is a non-resident in the Kingdom of Saudi Arabia; however, its intermediate ownership does not prevent the other companies from forming a VAT Group in the Kingdom of Saudi Arabia.

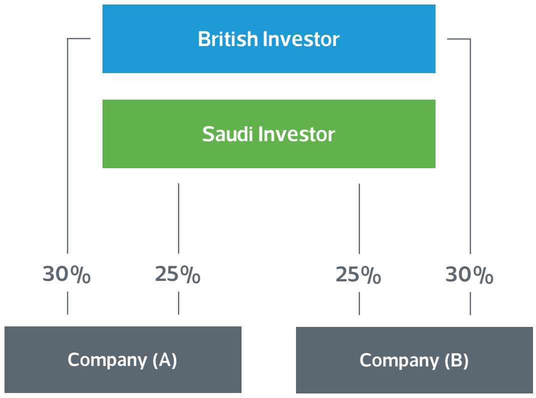
Example (3):



Mohammed, a natural person, owns 100% of Al Hilal Company and 50% of Al Amal Company. Both companies may form a VAT Group, provided that they are resident in the Kingdom and both are eligible or required to register in the Kingdom.

Example (4):

A British investor owns 30% of each of Saudi Company (A) and Saudi Company (B), while a Saudi investor owns 25% of each company. The remaining shares are distributed among individual investors in the market. The combined ownership of the two investors exceeds 50% in each company (a total of 55%). Accordingly, Company (A) and Company (B) are eligible to form a VAT Group.



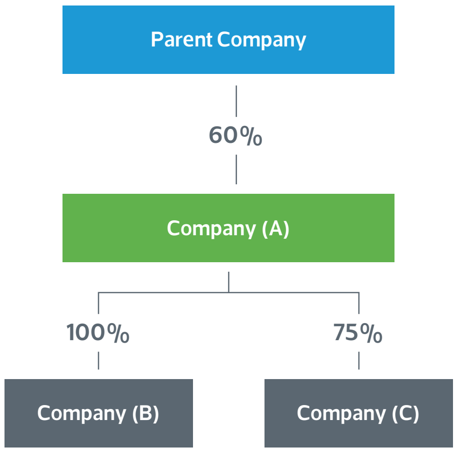
Example (5):

A parent company in the Kingdom owns 60% of Company (A), which in turn owns 100% of Company (B) and 75% of Company (C).

Accordingly, the parent company indirectly owns 60% of Company (B) and 45% of Company (C). All companies are resident in the Kingdom of Saudi Arabia and carry on an economic activity.

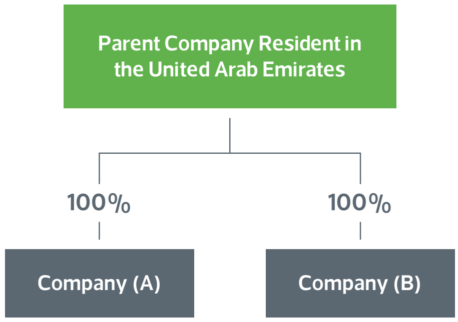
In this case, the parent company may form a VAT Group with Company (A) and Company (B).

The parent company may not form a VAT Group with Company (C), as the requirements for forming a VAT Group are not satisfied. On the other hand, Company (A) may choose to form a VAT Group with Company (B) and Company (C) only. All the aforementioned companies may not join the same VAT Group.



Example (6):

Companies (A) and (B) are sister companies, both resident in the Kingdom of Saudi Arabia, and both are wholly owned by a parent company resident in the United Arab Emirates. The parent company does not have a fixed establishment in the Kingdom of Saudi Arabia and is therefore non-resident in the Kingdom of Saudi Arabia. In this case, Companies (A) and (B) may form a VAT Group, even though the ultimate owner (the parent company) is not eligible to join the VAT Group.



4.1.3 Cases in Which a Legal Person May Not Form a VAT Group

A legal Person is not authorized to form a tax group, even if it is eligible or obligated to register for tax purposes. This includes three cases:

1. A Legal Person Licensed to Operate in Any Zone Enjoying Customs Suspension Status.

   It is required that none of the group members be licensed to conduct business in an area under customs suspension statud, due to the different tax treatment for activities within those areas.[15]

2. Registration in another tax group.

   It is required that none of the group members be members of another tax group simultaneously.[16]

3. A Person Eligible for Refund in Accordance with the Provisions of Article 70 of the Implementing Regulations

it is required that the registration applicant or any group member must not be a person eligible for refund under the provisions of Article 70. This excludes a person deemed eligible for refund as a licensed real estate developer whose real estate activity is limited to the supply, sale, and transfer of ownership exclusively to their employees, as well as a person eligible for refund as a donor in public benefit projects.[17]

(15) Article 10, Paragraph (1-c) of the Implementing Regulations
(16) Article 10, Paragraph (1-c) of the Implementing Regulations
(17) Article 10, Paragraph (1-d) of the Implementing Regulations

4.2 Responsibilities of the Tax Group Representative

The Tax Group Representative shall be one of the members of the Tax Group. This member shall be responsible for the obligations and rights relating to the Tax Group on behalf of all its members[18]. This includes the filing of all tax returns, correspondence, and payments due in relation to the Group in full.

The Tax Group Representative shall be the member that deals directly with the Authority on behalf of all Group members, including the filing of tax returns and correspondence on behalf of the Group. All Group members shall be bound by such obligations. All members shall be jointly and severally liable for the VAT due, as well as for all tax obligations, penalties, and any other liabilities imposed under the tax legislation in the Kingdom.

By submitting the registration application, the Tax Group Representative undertakes that it has the authority to bind the other members of the Tax Group when dealing with the Authority in relation to VAT.

Although the Tax Group Representative is primarily responsible for the tax obligations of the Group, the joint liability rules render all Tax Group members jointly and severally liable for such obligations.

4.3 Application for the Formation of a Tax Group

The Tax Group Representative shall submit an application for the formation of the Tax Group using the form prepared by the Authority. The form must include, at a minimum, information on all Group members as stipulated in Article 8 of the Implementing Regulations, in addition to a copy of the agreement concluded between the Group members appointing the Tax Group Representative, together with evidence of the Representative's acceptance of the appointment. The agreement shall constitute a declaration by the Tax Group that all conditions and requirements relating to registration as a Tax Group have been fulfilled[19].

4.3.1 Review of the Application

The Authority may request the Tax Group Representative to provide documentation relating to incorporation, ownership, or any other documents necessary to verify the information included

(18) Article 11 (1) - Implementing Regulations.
(19) Article 11(1-2) of the Implementing Regulations

in the registration application and to confirm the eligibility of each member to join the Tax Group. The Tax Group Representative shall be granted a period of 20 days from the date of submission of the application to provide such documents. The Authority shall approve the application if it determines that all Group members are eligible to join the Tax Group.

Where the Authority approves the Tax Group registration application, the Tax Group shall, for the purposes of applying the Law and the Implementing Regulations, be treated as a single taxable person independent from the participating persons. The Authority shall issue a new Registration Certificate with an independent Tax Identification Number for the Group and notify the Tax Group Representative accordingly. The Tax Identification Numbers of Group members previously registered individually shall be suspended[20].

The Authority may reject the registration application where the information contained therein is incorrect or where the legal persons are not eligible to register as a Tax Group[21].

4.3.2 Effective Date of Tax Group Registration

The Tax Group shall be established as of the first day of the month following the date of the Authority's approval of the registration application[22]. By way of example, if the Authority approves a Tax Group registration application on 20 April, the Tax Group registration shall take effect from 1 May. The approval notice shall specify the effective date. The Authority may determine a later date as the effective date of registration.

5. Amendment of the Tax Group

5.1 Mandatory Amendments

The Tax Group Representative shall notify the Authority where any change occurs to the information included in the registration application, or where any member is no longer eligible to be part of the Tax Group. Such notification must be submitted within 20 days from the date of occurrence of the change[23].

Based on the above, if a member is no longer eligible to be part of the Tax Group, or if the Tax

(20) Article 11(6) of the Implementing Regulations.
(21) Article 11(4) of the Implementing Regulations.
(22) Article 11(5) - Implementing Regulations.
(23) Article 12(1) - Implementing Regulations.

Group itself is no longer eligible to continue, such changes shall take effect from the date on which the legal person ceased to be eligible to be part of the Tax Group, or from the date of dissolution of the Tax Group (even if the Authority is notified at a later date)[24].

5.2 Other Changes

The Tax Group may amend its registration as a Tax Group in other cases. The Tax Group Representative, with the approval of all other Group members, may submit an application to:

- Add one or more new members to the Tax Group
- Exclude a current member from the Tax Group
- Replace the Tax Group Representative
- Dissolve the Tax Group

Such changes shall generally take effect from the date of submission of the application, unless the Authority determines another date[25].

5.3 Effect of Excluding Members or Dissolving the Tax Group

Where one or more members exit the Tax Group, or where the Tax Group is dissolved, each former member shall be treated as an independent legal person as of that date[26].

If the excluded member is required or eligible to register for VAT purposes, this must be stated in the application form. The legal person shall then be registered independently for VAT purposes and shall be issued with a new Tax Identification Number immediately (or the previous Tax Identification Number that had been suspended upon formation of the Group shall be reactivated).

If the excluded Tax Group member is no longer required to register independently and does not wish to register voluntarily, its tax registration must be cancelled. Accordingly, a final tax return must be submitted to account for any deemed supplies in respect of assets (fixed assets and inventory) owned by that member at the time of deregistration.

A member that exits the Tax Group and whose registration is immediately reactivated as a tax-

(24) Article 12(2) - Implementing Regulations.
(25) Article 12(3) - Implementing Regulations.
(26) Article 12(2) - Implementing Regulations.

able person shall not be considered to have had its tax registration cancelled and therefore shall not be required to submit a final tax return.

Example (8):

Companies (A), (B), and (C) are owned by the same person and are part of a Tax Group. Their annual taxable revenues were as follows:

Company (A)	SAR 2,000,000
Company (B)	SAR 1,500,000
Company (C)	SAR 85,000

Company (B) is the Tax Group Representative. On 30th June 2019, the owner of the three companies decided to sell Companies (A) and (B) to a different purchaser, while retaining ownership of Company (C).

From that date, the three companies are no longer eligible to form a Tax Group. Company (B), in its capacity as the Tax Group Representative, is required to notify the Authority of the changes within 20 days from that date. As the annual taxable revenues of Companies (A) and (B) exceed the mandatory registration threshold, those companies must immediately apply for registration for VAT purposes individually. A Tax Identification Number shall be issued to each of (A) and (B), effective from 30th June 2019.

Company (C) is not eligible to register for VAT purposes. Accordingly, its tax registration shall be cancelled effective from 30th June 2019. As Company (C) owns assets (fixed assets and inventory) on that date with a value of SAR 20,000, the final tax return of the Tax Group for the period of June 2019 must include a deemed supply of SAR 1,000, being 5% of the value of the assets owned at the time of tax deregistration.

6. Consequences of the Treatment of the Tax Group

6.1 Treatment of the Tax Group as a Single Taxable Person

Upon the Authority's approval of the registration of the Tax Group, the following provisions shall apply:

a. The carrying on of an economic activity by any member of the Tax Group shall be considered as carried on by the Tax Group.[27]

b. Any supply made by any member of the Tax Group shall be considered as made by the Tax Group.

c. Any import of goods or services by a member of the Tax Group shall be considered as made by the Tax Group.

d. Any output tax charged by a member of the Tax Group shall be considered as charged by the Tax Group.

e. Any input tax incurred by a member of the Tax Group shall be considered as incurred by the Tax Group.

(27) Article 4 - Unified Agreement for VAT.

6.2 Disregard of Supplies of Goods and Services between Members of the Same Tax Group

As the Tax Group is treated as a single taxable person, it cannot make a supply to itself for VAT purposes. Accordingly, supplies of goods or services made by one member of a Tax Group to another member of the same Tax Group shall fall outside the scope of VAT[28].

The Tax Group Representative shall not be required to report supplies made between members of the Tax Group in the Tax Group's tax return. Accordingly, such supplies shall be disregarded and shall not be included in the calculation of taxable or exempt revenues (for example, when calculating the standard method for determining the proportional deduction of input tax).

Example (9):

Companies (A), (B), and (C) provide financial services and form a single Tax Group. Their supplies during the year 2020 were as follows:

	Taxable Supplies	Exempt Supplies	Intra-Group Supplies
Company (A)	SAR 2,250,000	SAR 1,800,000	SAR 30,000
Company (B)	SAR 1,750,000	SAR 3,200,000	SAR 0
Company (C)	SAR 500,000	SAR 800,000	SAR 1,000,000

The Tax Group must allocate individual supplies between taxable and exempt supplies using the procedures set out in Section 8 of this Guideline. For the purpose of deducting VAT on inputs incurred by the Group as a whole that cannot be directly attributed to a specific supply or a specific company, the Tax Group must disregard intra-group supplies when calculating the proportional deduction.

The proportional deduction shall be calculated, excluding intra-group supplies, as follows:

Taxable Supplies / (Taxable Supplies + Exempt Supplies) =
SAR 4,500,000 / SAR 10,300,000 = 43.69%

(28) Article 18(8) - Implementing Regulations.

6.3 Joint Liability of Tax Group Members

Each member of the Tax Group shall be jointly and severally liable for the VAT debts and tax obligations of the Group arising during the period of its membership in the Tax Group[29].

In practice, the Tax Group Representative shall be primarily responsible for the tax obligations of the Tax Group. However, if the Tax Group Representative or any other member fails to comply with VAT obligations or defaults in payment, the Authority may issue an assessment or claim against any member of the Tax Group in respect of the tax amounts or penalties due[30].

7. Registration of the Tax Group in Special Cases

The Authority has special powers to safeguard tax revenues in relation to the registration of Tax Groups.

7.1 Authority's Powers to Remove Tax Group Status

The Authority may issue a notice to the Tax Group Representative to remove the Tax Group status in respect of any supplies made between members of the Tax Group, where it considers that the existence of the Tax Group results in obtaining tax advantages contrary to the purpose of the VAT Law[31].

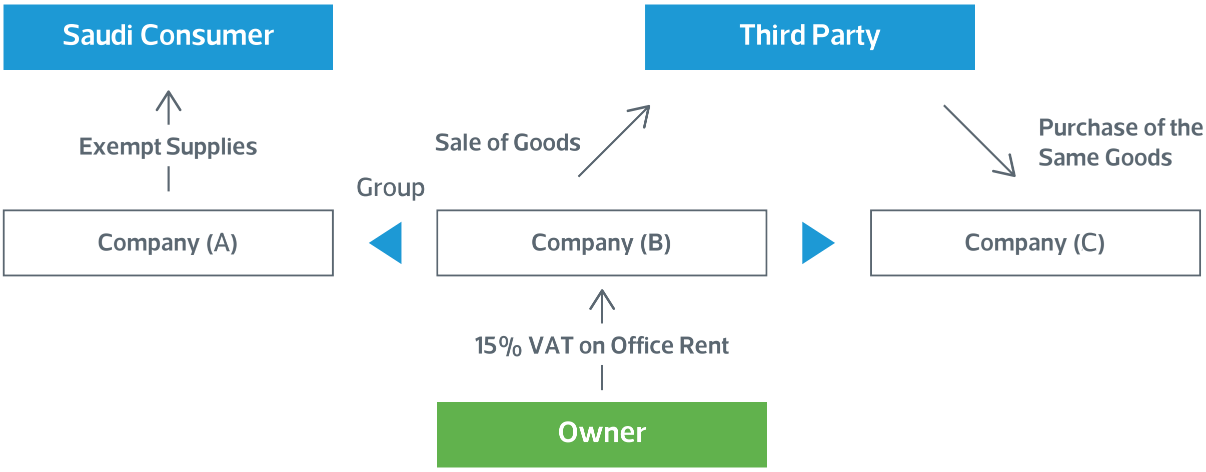
The non-imposition of VAT on ordinary commercial activities between members of a Tax Group is one of the tax advantages granted under the VAT Law. However, the entitlement to such tax advantages may give rise to arrangements and transactions between Group members that involve artificial transactions contrary to the VAT Law.

Example (10):

Companies (A), (B), and (C) are members of a Tax Group. Company (A) makes exempt supplies and therefore cannot deduct input tax relating to exempt activities. Company (B) and Company (C) were established to enter into transactions with other parties, whereby Company (B) sells goods to a third party and Company (C) purchases the same goods again at an artificial and inflated value. Company (B), as the contracting party with third parties, bears all general

(29) Article 11(1) - Implementing Regulations.
(30) Article 67 - Implementing Regulations.
(31) Article 12(5) - Implementing Regulations.

overhead expenses of the Group, such as office rent for use by the Group, and allocates a substantial portion of this artificial commercial activity to increase the recovery of VAT using the standard method, thereby obtaining tax advantages. In such a case, this constitutes grounds for intervention in relation to the Tax Group registration.



If the Authority issues a notice to the Tax Group Representative to remove the Tax Group status, such notice may be applied retrospectively. In the above example, following the issuance of the Authority's notice, supplies made by Company (B) to Company (A) in respect of general indirect expenses (including office rental charges) shall become subject to VAT.

7.2 Authority's Powers to Require Persons to Join a Tax Group

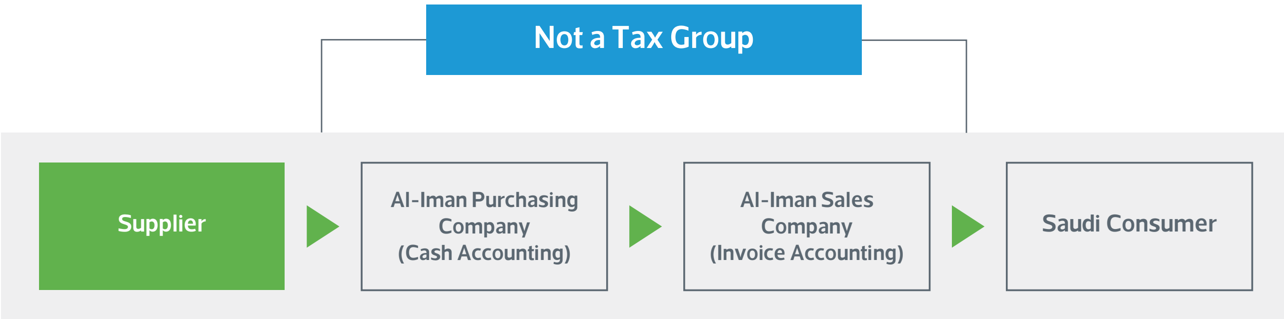
In other cases, the Authority may require 2 or more persons to form a Tax Group where it considers that the registration of any of them as separate persons results in obtaining tax advantages contrary to the purpose of the Law[32].

Example (11):

Al-Iman Purchasing Company is an independent legal entity established to purchase goods for use across the wider Al-Iman Group of companies. It is not part of any Tax Group. Al-Iman Purchasing Company is registered on a cash accounting basis and immediately deducts input tax on goods purchased on a cash basis.

(32) Article 24(8) - Implementing Regulations.

Al-Iman Sales Company is registered on an invoice basis and does not settle its purchases for up to 9 months. Al-Iman Sales Company is able to deduct the input tax on purchases received from Al-Iman Purchasing Company despite non-payment.



If Al-Iman Purchasing Company purchases equipment and then sells it to Al-Iman Sales Company in January but does not receive payment until September, the VAT consequences would be as follows:

Al-Iman Purchasing Company	Al-Iman Sales Company
Payment of output tax - September (in accordance with the cash basis)	Use of equipment - no output tax
Deduction of input tax - January (in accordance with the cash basis)	Deduction of input tax - January (in accordance with the invoice basis)

By recording these transactions separately, and through flexible payment terms to accommodate both cash and invoice accounting methods, cash flow advantages would arise for the corporate group. This would be contrary to the purpose of the cash accounting regime under the Law.

Where Al-Iman Purchasing Company and Al-Iman Sales Company are closely associated, the Authority may require them to form a Tax Group and to be treated as a Tax Group from a date determined by the Authority.

This applies where the registration of either company as a separate person results in obtaining tax advantages contrary to the purpose of the tax system.

8. Deduction of Input Tax

8.1 General Conditions

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

- VAT charged by a supplier registered in the Kingdom
- VAT self-accounted by a person registered for VAT purposes under the reverse charge mechanism

As a general rule, input tax relating to supplies exempt from VAT may not be deducted. In addition, input tax may not be deducted in respect of any expenses incurred that do not relate to the economic activity of the taxable person (including certain categories of blocked expenses such as entertainment services and vehicles[33]), or any other costs relating to supplies exempt from VAT.

Input tax shall constitute a credit balance to be included in the VAT return and offset against the VAT charged on supplies (output tax) made during the relevant period. Input tax may only be deducted where the taxable person holds a tax invoice or customs documentation evidencing the amount of tax due (or any alternative document evidencing the amount of input tax paid or payable, subject to the approval of the Authority).

The invoice received from the supplier must be issued in the name of the Tax Group Representative or in the name of one of the current members of the Tax Group in its capacity as the recipient of the supply.

8.2 Proportional Deduction of Input Tax

Input tax relating to supplies of the taxable person that are exempt from VAT, such as exempt financial services or exempt residential rent, may not be deducted (it should be noted that real estate supplies are exempt from VAT and subject to Real Estate Transaction Tax; for further information, please refer to the Real Estate Transaction Tax Guideline).

(33) A detailed list of blocked expenses is set out in Article 50 - Implementing Regulations.

Where the supplies of the taxable person include both supplies subject to VAT and supplies exempt from VAT, the person may deduct input tax relating to the taxable portion only. Where the taxable person incurs general expenses or costs in making both taxable and exempt supplies, such expenses and costs must be apportioned accurately to determine the costs attributable to the taxable portion. Input tax shall be determined in accordance with the following provisions[34]:

Supplies made between members of the Tax Group shall be disregarded and shall not be included within exempt or taxable supplies for the purposes of input tax deduction.

For Tax Groups that include partially exempt activities, recoverable input tax must be determined using the following procedures:

Input tax directly attributable to taxable supplies	fully deductible.
Input tax directly attributable to exempt supplies	not deductible.
General expenses and input tax that cannot be directly attributed to taxable supplies	partially deductible based on apportionment.

General expenses/costs incurred by the Tax Group in making both taxable and exempt supplies must be apportioned in a manner that accurately reflects the use of those costs in the taxable portion of the activities of the taxable person (the Group). As the Tax Group is treated as a single taxable person for VAT purposes, the taxable portion shall be determined based on the combined activities of all Group members (or the proportional deduction of each member individually), aggregated within the consolidated return submitted by the Tax Group Representative.

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

Value of taxable supplies made by the taxable person (all Group members) during the previous calendar year
Total value of taxable and exempt supplies made by the taxable person (all Group members) during the previous calendar year

The above method shall exclude supplies of capital assets made by the taxable person, as their inclusion would distort the recovery of input tax.

(34) Article 51 - Implementing Regulations.

In the case of Tax Groups, expenses that cannot be directly attributed to taxable or exempt supplies are often apportioned on the basis of the general expenses incurred by each individual member company and the supplies made by that member. In such cases, the "per sector incurred" method allows input tax to be deducted in accordance with the activities of each company separately (individual businesses), treating each as a separate sector within the Tax Group. This method may provide a more accurate reflection of the use of general expenses.

Example (12):

A group consisting of 3 different companies decided to form a Tax Group. Company (A) imports and sells cigarettes. Company (B) leases residential units on a long-term basis and leases furnished apartments on a short-term basis. Company (C) is an investment company making both taxable and exempt financial supplies.

The 3 companies operate independently of one another, with limited shared costs. The companies' supplies during the year 2020 were as follows:

Company	Taxable Supplies (SAR)	Exempt Supplies (SAR)	Standard Ratio	Unallocated General Expenses (SAR)	Deductible Expenses per Company (Sector Basis) (SAR)
(A)	14,000,000	0	100%	50,000	50,000
(B)	2,000,000	3,000,000	40%	350,000	140,000
(C)	500,000	2,000,000	20%	200,000	40,000
Total for the Tax Group	16,500,000	5,000,000	77%	600,000	230,000

Company (A) has the highest amount of taxable supplies and the lowest unallocated general expenses. If the standard method were used, the Group would be allowed to deduct 77% of the Group's total general expenses (SAR 462,000), which would distort the deduction of expenses for Companies (B) and (C). Therefore, the "per sector" method should be used, calculating general expenses for each company individually.

The Authority may approve alternative methods for calculating the proportional deduction other than the standard value-of-supplies method in cases where these better reflect the actual use of VAT incurred. Further information on input tax deduction and partial VAT recovery will be provided in a separate Guideline[35].

(35) Article 51(b) - Implementing Regulations

9. Obligations of the Taxable Person

As a taxable person, you are required to assess your tax liability and comply with the conditions and obligations related to VAT. This includes registering for VAT where applicable, accurately calculating the net tax payable, paying tax on its due date, maintaining all necessary records, and cooperating with the Authority's officers upon request.

If you are unsure about your obligations, you should contact the Authority via its website at **zatca.gov.sa** or through other communication channels. You may also seek external advice from a qualified consultant. The following summarizes the key tax obligations under the Law and the Implementing Regulations.

9.1 Tax Identification Number

The Authority shall issue a Tax Identification Number (TIN) for the Tax Group and suspend the TINs of members previously registered individually. The TIN must be used in all tax invoices and any correspondence relating to VAT.

9.2 Issuance of Invoices

A taxable supplier must issue a tax invoice for every taxable supply made to another person registered for VAT purposes or to any other legal person, or issue a simplified tax invoice if the value of the supply is less than SAR 1,000, or issue a simplified invoice for supplies made to a final consumer no later than fifteen 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 TIN, the taxable amount, the applicable tax rate, and the amount of VAT charged[36]. If different rates apply to different supplies, the rate and VAT amount for each item must be specified separately. A tax invoice may be issued in the form of a commercial document provided that it includes all requirements for issuing a tax invoice as set out in the Implementing Regulations of the Law[37].

For the Tax Group, the tax invoice issued by the Group or by any member of the Group must include the Tax Identification Number (TIN) of the Group. The invoice may also include the name and address of the member company within the Group as the actual supplier.

(36) For further details on tax invoice requirements, see Article 53(5) of the Implementing Regulations of the Law
(37) Article 53 - Implementing Regulations

For further information on tax invoice requirements, you may refer to the VAT Guideline or visit the website at **zatca.gov.sa**.

9.3 Filing of VAT Returns

Every person registered for VAT purposes, or an authorized representative acting on their behalf, is required to submit a VAT return to the Authority for each tax period, whether monthly or quarterly. The VAT return constitutes a self-assessment by the taxable person of the tax due for that period.

Monthly tax periods are mandatory for VAT-registered persons whose annual revenue exceeds SAR 40 million, while the standard tax period for other VAT-registered persons is quarterly (three months).

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

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

If the VAT return results in an overpayment or credit balance for any reason, the taxable person may request a refund of the amount at any time within five years from the submission of the VAT return by submitting a refund request to the Authority. The Authority shall review these requests and pay the refundable amounts for approved requests directly to the taxable person[38].

For the Tax Group, the VAT return form for the Group is the same as that used by individual VAT-registered persons; however, it must include the supplies made for and by all members of the Tax Group (excluding supplies made between members of the same Group). The members of the Tax Group shall consolidate their individual VAT returns to reflect their inputs and outputs for that period and submit them to the Group Representative for inclusion in a unified VAT return for the Tax Group. This serves as a practical measure to consolidate information from the Group members through the Group Representative to complete the Group's unified VAT return. Upon request by the Representative, the Group Representative must have access to the relevant records and provide them to the Authority.

For more information, you may refer to the VAT Guideline available on the website at **zatca.gov.sa**.

(38) Article 62 - Implementing Regulations

9.4 Record Keeping

All taxable persons under the system are required to maintain appropriate tax records for auditing purposes, relating to the calculation of VAT. This includes any documents used to determine the VAT due for each transaction and for the VAT return. Generally, such records include:

- Issued and received tax invoices
- Accounting books and records
- Contracts or agreements related to significant sales and purchases
- Bank statements and other financial records
- Import, export, and shipping documents
- Other documents related to VAT calculation

Records may be maintained in paper form and, in some cases, electronically, but they must be made available to the Authority upon request. All records must be retained for at least the basic retention period of 5 years. For invoices and records relating to capital assets, the minimum retention period extends to 16 years.

9.5 VAT Registration Certificate

Any resident taxable person registered with the Authority under the VAT system must display their VAT registration certificate in a prominent place at their main business premises, all branches, and e-commerce stores. Failure to comply with this requirement may result in penalties as prescribed under the system.

9.6 Request for an Interpretative Decision (Tax Ruling)

If you are unsure about how VAT applies to a specific activity or transaction, after reviewing the relevant statutory provisions and the related guidance, you may submit a request to the Authority for an interpretive decision, in accordance with the provisions of the Guideline on Requests for Tax Ruling

9.7 Correction of Previous Errors

If a taxable person discovers an error or inaccuracy in their submitted VAT return or failure to comply with any VAT obligation, they must notify the Authority and correct the error by amending the VAT return.

- If the error results in a tax difference exceeding SAR 15,000 the taxable person must notify the Authority within 20 days of identifying the error or correct amount and amend the previous return.
- For minor errors resulting in a tax difference of less than SAR 15,000 the correction can be made by adjusting the net tax in the next VAT return.

For a Tax Group, errors are corrected at the group level through the group's VAT returns. For further information on error corrections, please consult the Authority's website at **zatca.gov.sa**.

10. Penalties

The Authority may impose penalties or sanctions on taxpayers in relation to violations of the provisions and conditions of the VAT Law and its Implementing Regulations.[39]

Non-Field Violations

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

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

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

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

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

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

First: Increase of the Penalty

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

aggravating factors apply, as follows:

1. The penalty shall be increased by 10% where the error in the return is associated with a case of tax evasion for which a decision has been issued by the Authority, in accordance with Article 39 of the VAT Law.
2. The penalty shall be increased by 10% where the taxable person's compliance record is classified as very poor.

3. The penalty shall be increased by 5% where the taxable person's compliance record is classified as poor.
4. The penalty shall be increased by 5% where the percentage of the difference between the calculated tax and the due tax, payable or refundable, relating to the total periods subject to amendment, exceeds 20% for returns relating to monthly tax periods, or exceeds 40% for returns relating to quarterly tax periods.

Second: Reduction of the Penalty

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

1. The penalty shall be reduced by 5% where the taxable person's compliance record is classified as good.
2. The penalty shall be reduced by 5% where the percentage of the difference between the calculated tax and the due tax, payable or refundable, relating to the total periods subject to amendment, is less than 5% for returns relating to monthly tax periods, or less than 15% for returns relating to quarterly tax periods.
3. The penalty shall be reduced by 10% where the taxable person pays the amount of the difference between the calculated tax and the due tax payable within 30 days from the assessment decision issued by the Authority.
4. The penalty shall be reduced by 15% where the taxable person is classified as a micro-enterprise. For the purposes of these rules, a micro-enterprise is deemed to exist where the value of its annual taxable revenues does not exceed SAR 3,000,000 during the 12 months preceding the tax period subject to audit and assessment.
5. More than one mitigating factor shall not be combined in relation to the mitigating factors stated above, except for the factors relating to payment of the due tax set out in these controls.
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: Controls 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 aw areness thereof, and granting an appropriate time period ranging from 30 to 60 days to rectify them, except for the violation relating to preventing or obstructing Authority employees from performing their duties and tasks. In such case, the violator shall be granted a period not exceeding 10 days from the date of imposition of the last penalty to rectify the violation, which shall be imposed consecutively in the event of repeated commission by the violator.

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

11. Contact Us

For more information regarding the treatment of VAT, please visit the Authority's website at **zatca.gov.sa** or contact us via phone at **19993**.

Appendix: Frequently Asked Questions (FAQ)

1. **Can residents in the Kingdom form a Tax Group if the ultimate owner is not VAT-registered?**

   Yes, provided that all persons are under common control, in addition to fulfilling other requirements for forming a Tax Group.

2. **Are all jointly-owned companies obliged to join a Tax Group?**

   No. Forming a Tax Group is an optional privilege. The Authority may require companies to join only in specific cases to prevent tax evasion.

3. **Can entities engaged in different types of business within a group form a Tax Group?**

   Yes. A Tax Group is treated as a single taxable person, regardless of the variety of activities conducted by its members.

4. **Must each member of the Tax Group be VAT-registered?**

   Not necessarily. Each member must, however, be eligible for registration as a taxable person under the regulations.

5. **What changes occur to invoices after joining a Tax Group?**

   Invoices must include the VAT registration number of the Tax Group. Members may continue issuing invoices in their own name while including the Group VAT number and clearly indicating their membership in the group.

6. **Is it necessary to issue a VAT invoice for supplies to another member within the Tax Group?**

   No. VAT is not applied to supplies made to another member within the Tax Group, and there is no requirement to issue a formal invoice.

7. **Can I request to form a Tax Group retrospectively?**

Yes. VAT is applied from the date of the Authority's approval or thereafter.

8. **What is each member's share of VAT within a Tax Group?**

Each member is jointly liable for all debts of the Tax Group. Actual payments are a contractual matter between the members, but generally calculated based on output VAT from each member's sales, minus deductible input VAT on that member's purchases.

9. **How is VAT input deduction applied to a Tax Group?**

The Group representative is entitled to deduct VAT. Allocation rules apply to determine deductions for taxable supplies versus exempt supplies provided by the Tax Group. Non-allocable VAT must be deducted according to the proportional deduction method.

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