



Guideline

Value Added Tax Provisions in Economic Activity



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

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



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1. Introduction

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

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

1.2 Zakat, Tax and Customs Authority

Council of Ministers Resolution No. 570 dated 22nd Ramadan 1442H/4th May 2021G was issued, providing for the merger of the General Authority of Zakat and Tax and the General Customs Authority into a single entity under the name of the Zakat, Tax and Customs Authority (ZATCA). The Authority undertakes the collection of Zakat and the collection of taxes and customs duties, and seeks to achieve the highest levels of compliance by taxable persons 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, protecting 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 with a focus on the customer and service delivery in accordance with best practices.

1.3 What is VAT?

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



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

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

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

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

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

For more information about VAT, please see the VAT Guideline in the Kingdom of Saudi Arabia available through the website zatca.gov.sa.

1.4. This Guideline

Economic Activity is one of the fundamental and essential terms for the imposition of VAT in the KSA.

The main objective of this Guideline is to provide further clarification regarding the interpretation of the definition of economic activity for VAT purposes. It is directed to all persons who practice activities involving the supply or receipt of goods or services. This Guideline contains detailed and illustrative information related to:

- Employees and persons who perform similar personal services.
- Holding companies and management companies.
- Charities and non-profit organizations.
- Government bodies.



To obtain guidance on any specific transactions, a request for an interpretative decision can be submitted by visiting the official VAT website zatca.gov.sa, which includes a wide range of tools and information specifically developed to assist persons subject to the Regulations, including visual guidance materials, all relevant data, and frequently asked questions.

2. Definitions of the Main Terms Used

Economic activity: Defined for VAT purposes as follows:

"An activity that is conducted in an ongoing and regular manner, including commercial, industrial, agricultural, professional, or services, or any use of material or immaterial property, and any other similar activity⁽¹⁾".

A Taxable Person: Defined in the Implementing Regulations of the VAT System as follows:

"... a Taxable Person in the Kingdom is a Person who conducts an Economic Activity independently for generating income, and is registered for VAT in the Kingdom or who is required to register for VAT in the Kingdom under the Law or these Regulations.⁽²⁾"

Under the Unified VAT Agreement, persons who are registered or required to register in any GCC State are considered a Taxable Person. The requirements for registration in the Kingdom are described in Section 4.

Taxable Supplies are a defined term for VAT purposes. In the Unified VAT Agreement, they are defined to be: "Supplies on which Tax is charged in accordance with the provisions of the [Unified VAT] Agreement, whether at the standard rate or zero-rate, and for which associated Input Tax is deducted in accordance with the provisions of the [Unified VAT] Agreement⁽³⁾".

VAT is chargeable in the Kingdom of Saudi Arabia on taxable supplies of goods or services made or received by a taxable person in the Kingdom, and on importation into the Kingdom⁽⁴⁾.

Resident is a term defining a person (with a natural or corporate) who has a place of residence in the KSA for VAT purposes.

A Non-Resident is a person with no such place of residence in the KSA⁽⁵⁾.

(1) Article 1, Definitions, Unified VAT Agreement

(2) Article 2, Taxable Persons required or eligible to register in the Kingdom, Implementing Regulations

(3) Article 1, Definitions, Unified VAT Agreement

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

(5) Article 1, Definitions, Unified VAT Agreement



3. Economic Activity

The Economic Activity definition contains two important limbs:

3.1. An Activity Being Conducted in an Ongoing and Regular Manner

Continuity and regularity of a person in making or receiving supplies are one of the key elements for the carrying on of an economic activity. Other activities carried out by a person other than the making of supplies may be regarded as an indicator of the carrying on of an economic activity in an ongoing and regular manner (such as preparatory activities).

Generally, the concept of 'ongoing and regular' will depend on the nature of the business or activity carried out by the taxable person, in addition to other factors. The evaluation of whether a person carries on an economic activity will be done with regard to the acts that the person does relating to the making of supplies.

The factors that can be considered to determine whether a person is carrying on an economic activity in an ongoing and regular manner will include, by way of example and not exclusively:

- Whether the person has a commercial registration for the carrying on of the activity, or similar licenses (or if he is required to obtain a commercial registration or a license, under the laws in force), or
- Carrying on activities preparatory to an economic activity, or
- The number of supplies made by the person, or
- whether the person promotes his products or services to the public in such a manner that it appears to the public that he is carrying on a separate economic activity, and
- Any other relevant act

These factors serve as non-exhaustive, indicative markers that an individual is conducting an economic activity on a continuous and regular basis or intends to conduct an economic activity in such a manner.

Once-for-all transactions, like the sale of a person's personal belongings by a natural person, are not considered economic activities for VAT purposes unless they are carried out as a component of more extensive activities. Deliveries made in a different way, however, can be part of an



ongoing economic activity (e.g., seasonal work).

Example (1):

A restaurant in Jeddah closed in May 2018 for refurbishment. After a break over the summer, the owner arranges for a new kitchen to be installed and hires a new head chef. The restaurant opens in November 2018, with new décor and a new menu. Despite the gap in trading, the owner has carried on an Economic Activity during the whole period of 2018.

The date of commencement of economic activity is the date on which the person does the act or takes a step that makes it clear that the person has done so for the purpose of commencing or carrying on the economic activity in an ongoing and regular manner.

Example (2):

A person established a plastic packaging factory in Al Jubail Industrial City in 2019, and he imported machinery and equipment to be used in production in the same year, with the actual production to begin in the year 2021. The factory will not make any supplies before 2021, but despite that, the person will be regarded as carrying on an economic activity throughout the period 2019 to 2021.

3.2. The Economic Activity Includes Known Economic Activities and Activities Similar Thereto

Economic activity, as defined in the Unified VAT Agreement and in the Saudi VAT Law, is a broad and non-exhaustive list, including:

- Commercial activities or services
- Industrial activities or services
- Agricultural activities or services
- Professional activities or services
- Use of material or immaterial property
- Any other similar activity

Generally, all commercial activities are presumed to fall within the scope of Economic Activity. Conversely, the Economic Activity is not intended to include activities carried out in a private



context.

Certain private activities may evolve into activities involving the regular provision of goods or services to others, which can sometimes make it difficult to distinguish between an economic activity and a private one. In such cases, the Authority takes into account several principles to determine whether the activity constitutes an economic activity, such as:

- Is the activity practiced for personal benefit or for profit-making purposes?
- Is it carried out in an organized and systematic manner?
- Does it possess an economic character in terms of the nature of the recurring transactions?
- Is it conducted in a manner similar to entities performing a comparable economic activity?

Example (3):

Abdul Rahman is a Saudi resident natural person who enjoys making trips to the desert during the winter in all-terrain vehicles. He often invites friends and acquaintances to join him on the excursion, and requests that these people pay to cover costs. He does not offer the excursions to the public or plan a schedule in advance as licensed operators would. This suggests a private activity without serious intention to carry it out as an Economic Activity.

Example (4):

Osama is a Saudi resident natural person, and a luxury car enthusiast, and imports many vehicles to the KSA for his own personal use. Related to this, he also buys and sells parts for these luxury cars to other Saudi residents and to people throughout the world, through online car forums. In 2018, he sold parts valued at SAR 400,000. Consequently, Osama's activities would be regarded as similar to the activities of corporate bodies that carry on such activities and are required to register for VAT in KSA.

In the previous example, Osama carries on an economic activity and a private activity at the same time. The import of luxury vehicles for his personal use, whilst similar to the Economic Activity, should not be considered to be part of the Economic Activity.

An economic activity can be carried on by any person, whether a natural person (individual) or a legal person, such as incorporated companies and establishments. The activities of public bodies are described in more detail in Section 6.



Whether or not the activity is an economic activity does not depend on any of the following:

- An intention to make a profit: the prescribed activities are not restricted to those carried out for a profit. As mentioned above, a Taxable Person is a person carrying on Economic Activity independently for the purpose of generating income. The concept of income is broader than the intention to make a profit. Therefore, a non-profit organization may carry on an economic activity and be required to register for VAT where it derives income from making taxable supplies of goods and services. If the non-profit organizations do not carry out activities to generate income from their activities, it would not need to register. Despite that, if a person or organization seeks to make a profit, this is an indication that it is carrying on an Economic Activity.
- The establishment of a legal entity, or obtaining licenses for the activity, or commercial registration, etc.: the requirements of VAT law are separate from the Companies Law, the Commercial Registration Law, and other relevant laws.
- Making taxable supplies: an activity that makes exempt supplies, or which enters into transactions taking place outside the KSA and are not subject to VAT in the KSA, is still an Economic Activity. This activity will, however, not count towards the relevant thresholds for registration discussed in Section 4.

4. Registration

4.1. Economic Activity and Taxable Supplies

The KSA VAT law states that:

"... a Taxable Person shall be obligated to register according to his Economic Activities carried out by the Taxable Person in the Kingdom."⁽⁶⁾

This means that all taxable persons who carry on an Economic Activity for the purpose of generating income are required to register for VAT in accordance with the rules stated below, and all VAT-registered persons must collect and remit to the Authority VAT due on their taxable supplies. A person will only be required, or eligible to register for VAT, based on Taxable Supplies made by that person or to that person. A person may therefore carry on an Economic Activity, but may not be required or eligible to register for VAT in the KSA as outlined below.

(6) Article 3(1), Registration for Tax Purposes, VAT Law



4.2. Mandatory Registration

Registration is mandatory for all persons whose annual turnover exceeds a certain registration threshold. If the total of a person's Taxable Supplies made during 12 months exceeds SAR 375,000 (the "mandatory VAT registration threshold"), that person must register for VAT on those and any subsequent Taxable Supplies made, subject to the transitional provisions set out in the Implementing Regulations relating to the mandatory registration threshold during the transitional period⁽⁷⁾.

The Taxable Supplies do not include⁽⁸⁾:

- VAT Exempt supplies - such as any residential rental which qualifies for VAT exemption;
- Supplies that are outside of the scope of VAT in any GCC state⁽⁹⁾;
- Revenues on sales of capital assets: A capital asset is defined as an asset allocated for long-term business use. Trading stock is not a capital asset.

In some special cases, additional provisions regarding mandatory registration shall apply; for example:

- Non-Residents of KSA who are obliged to pay VAT on the supplies that they make or receive in the Kingdom are required to register for VAT, irrespective of the value of the supplies in respect of which they are obliged to collect and pay VAT⁽¹⁰⁾.

4.3. Optional Registration

A person resident in the Kingdom of Saudi Arabia whose taxable supplies or taxable expenses exceed SAR 187,500 (the "optional registration threshold") within a period of 12 months may register optionally for VAT. Optional VAT registration may be desirable where a person wishes to claim VAT charged on its costs before invoices are raised or the occurrence of an onward supply⁽¹¹⁾.

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

(8) Article 52, Calculating the value of Supplies, Unified VAT Agreement

(9) Note the transitional provisions surrounding GCC states without VAT systems - see Section 9.1

(10) Article 5, Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom, Implementing Regulations

(11) Article 7, Voluntary Registration, Implementing Regulations and Article 51, Voluntary Registration, Unified VAT Agreement



5. Economic activities: specific cases

5.1. Employees and provision of personal services

For VAT purposes, employees do not carry on an Economic Activity in respect of the services provided as part of employment. The Implementing Regulations state that:

"Employed and other Persons in so far as they are bound to an employer by contract or by any other legal ties creating the relationship of employer and employee as regards working conditions, remuneration, and the employer's liability, are not considered to be carrying on an Economic Activity..."⁽¹²⁾

This means that VAT is not charged on payments of salary or wages to an employee. Likewise, employees are not able to register for VAT in respect of their employment activities.

Under Saudi employment law, an employment contract is defined as:

"a contract concluded between an employer and an employee, whereby the latter undertakes to work under the management or supervision of the former for a wage."

Workers and other persons are regarded as employees to the extent that they are under an obligation towards the employer by contract or by any other legal ties creating the relationship of employer and employee as regards working conditions, remuneration, and the employer's liability⁽¹³⁾.

Individuals who are not employees, but instead independently provide regular services under a services agreement or any other agreement with other persons, will be regarded as carrying on an Economic Activity for VAT purposes. These individuals may be required to register for VAT, depending on the value of Taxable Supplies made annually. In this way, the provision of identical services by persons operating under different contracts can have distinct VAT treatments.

Example (5):

Rima is a Saudi resident natural person who carries out IT consulting work for a number of companies on short-term contracts. She charges a daily rate of SAR 2,000 but does not sign a contract of employment with any of those companies. Consequently, Rima's activities are treated

(12) Article 9(6), Registration provisions applying to specific circumstances, Implementing Regulations

(13) Article 50, Labor Law, enacted by Royal Decree No. M/51



as economic activities, and she must register for VAT and charge VAT on the daily remuneration that she receives if her annual revenues exceed the mandatory registration threshold.

5.2. Holding companies, dormant companies, and management companies within a group of companies

Within a corporate group structure, each company (separate legal entity) is seen as a separate person for VAT purposes. Despite the activities of the broader corporate group, the activities of each individual company must be examined to determine whether the company carries out an Economic Activity in its own right to be able to determine each company's:

- Requirement to register;
- Eligibility to register; or
- Eligibility to join a VAT group (please refer to the VAT Group Guidelines for more details)

5.2.1. Dormant company

A dormant company is an entity that does not carry on any activity or incur any operational costs. This may be due to an earlier activity ceasing, the company being established for future activity, or for group restructuring reasons. A dormant company does not carry on an Economic Activity for VAT purposes and consequently cannot register for VAT.

5.2.2. Holding Company

A holding company is a company designed to control other companies, which are called subsidiary companies. The holding company holds shares or ownership in other companies. Saudi companies will not be regarded as holding companies unless they have been established as holding companies under the Companies Law and other relevant laws. Generally speaking, for VAT purposes, the ordinary activities of the holding company may be different from one company to another. A holding company that has an ownership stake and receives dividends will not be regarded as carrying on an economic activity for VAT purposes. However, if the holding company has other sources of revenues or expenditures, it is probable that it will be regarded as carrying on an economic activity.



An "active" holding company may	A holding company may
Hold shares in one or multiple group subsidiaries	Incur operational costs and make recharges of costs to other group entities
Receive dividend income relating to the ownership stake or shares that it holds	Provide financing to branches or other subsidiary companies
Pay dividends to its shareholders	Invest by means of the sale and purchase of shares and other securities
Incur company registration, audit, and other non-operational fees	Has its own administrative staff, or receives a recharge for a portion of staff or office costs
	Provide services to other subsidiary companies
	Own real estate and movable property to carry on its activity
	Hire out ownership rights and other rights in rem to its subsidiary companies or others
These activities are not sufficient to confirm that Economic Activity is carried out	These activities confirm that the (active) holding company carries out an Economic Activity

Example (6):

Holding Company A, resident in the Kingdom of Saudi Arabia, is the 100% owner of a group of companies consisting of 7 subsidiary companies within the corporate group. The holding company is registered at the same address as the largest operating subsidiary and has no staff or office of its own. It holds annual Board meetings to cover group activities and approve dividends but does not provide any management services to the subsidiary companies. Consequently, the Holding Company is not regarded as carrying on an Economic Activity and cannot register for VAT or join a group with the other companies in the group.

Example (7):

Holding Company B, Resident in the Kingdom of Saudi Arabia, is the 100% owner of a group of companies consisting of 7 subsidiary companies. Holding Company B has some employees, and it carries out some administrative functions for the group of companies. These employees also spend some time working for group companies, and the costs of such work are charged to the relevant subsidiaries. Holding Company B also incurs centralized costs for performing financial



and administrative tasks for the group, and the rest of the subsidiaries in the group bear those costs. In such case, Holding Company B is considered to be carrying on an Economic Activity for VAT purposes, on the grounds that it receives its revenues from fees for services performed for the subsidiary companies within the group. It may register for VAT purposes if annual supplies exceed the optional VAT registration threshold, or may form a group with one or more of its subsidiary companies.

5.2.3 Management Companies Within the Group

A management company within the group or a service company does not generally enter into transactions with third parties outside the group but carries out services for the benefit of the companies within the group. Generally, these services are made under service agreements between the parties to the group and charged on an annual or other periodical basis.

Management services are generally seen as continuous services for VAT purposes. Under rules for the date of supply of services, if continuous services are not invoiced or payment received, on an annual basis, a date of supply takes place on the date falling 12 months from the last supply or the date of issue of the invoice, or the date of receipt of the consideration, whichever occurs last.

Accordingly, a management company in the group or a service company is considered to be carrying on an Economic Activity for VAT purposes.

Example (8):

A group of Saudi companies established a Service Company, a separate legal entity, to carry out central functions and provide management oversight to 3 individual operational companies in the Kingdom of Saudi Arabia. It employs three employees with detailed technical knowledge: one in the position of Senior Executive and two administrative staff member. Service Company enters into a Management Services Agreement with each of the operational companies individually under which it charges a 40% of its costs to each company (thus representing an overall profit of 20% on total costs) in consideration of the value of services provided.

During 2021G, Service Company incurs costs of SAR 2,800,000. It raises an invoice to each subsidiary individually for its supplies on 15th January 2022, for services provided (being SAR 1,120,000), and adds VAT at 15%. The invoice will consequently be as follows:



Supplier: Service Company TIN: 3000 56965 00003	Date: /31 st December 2021
Customer: Operational Company A	Amount (SAR)
Management fees for year ended 31 st December 2021G 40% x SAR 2,800,000	1,120,000
VAT at 15%	168,000
Total payable	1,288,000

It should be noted that if Service Company were registered as part of a tax group with the operational companies, the management fee would be outside the scope of VAT.

5.3 Private Associations and Establishments

The Ministry of Human Resources and Social Development in the Kingdom of Saudi Arabia is the competent authority for licensing private associations and establishments, including charitable associations.

The term "charitable" is broad and includes many forms of organizations. A charitable association is generally seen as a public benefit body which is either funded by donations from the public, grants from the state, income from permitted supplies that may be subject to tax, or, as in the case of charitable foundations, primarily from income and gains from investment assets.

A private association or establishment established for charitable activities will generally not have the goal of obtaining profit, but will carry out its activities with the view to supporting a particular cause. The tax treatment will depend on the functions the private association or establishment carries on to derive its income, whether or not this involves a regular commercial activity.

As activities differ between charitable organizations, this must be considered on a case-by-case basis. As discussed in the core principles in Section 3 of this Guideline, the absence of a profit-making intention does not exclude an organization from carrying on an Economic Activity, as a person carrying on an Economic Activity with the intention of generating income of any sort may be a Taxable Person.

Private associations or establishments that practice fundraising activities only and derive their income from donations and grants, and then either transfer those funds directly to beneficiaries or use those funds to provide free services without imposing an additional fee, will not be considered



to be practicing an economic activity based on those activities only.

With respect to private associations or establishments that derive income from their own established source of (non-donation or non-grant) funding, from investments, or from the provision of goods and services will be considered as carrying on an Economic Activity.

Furthermore, Private associations or establishments that provide services to the public or to designated recipients (including for a reduced or subsidized price) are still viewed to carry on an Economic Activity for VAT purposes.

5.4 Ownership of Racing Animals and Other Leisure Investments

According to general principles, leisure activities may constitute an Economic Activity where they are carried out on a regular basis and meet the necessary criteria and requirements to be considered as an Economic Activity.

The ownership of a racing animal (such as a horse or camel) can be an investment and a means of deriving income on a regular basis.

Example (9):

Hossam, a natural person in the Kingdom of Saudi Arabia, owns 3 race horses and incurs regular expenditure from service providers in respect of stabling, grooming, and training. The service providers add VAT to their invoices. Hossam enters his horses into races but does not have any stream of anticipated income in respect of this.

Hossam is not regarded as carrying out an Economic Activity in respect of his horse ownership, and cannot register for VAT. The VAT incurred on the services provided to him is therefore not deductible and will be an additional expense of his.

6. Government Entities

Specific rules apply in examining whether government entities carry on an Economic Activity for VAT purposes. The Implementing Regulations of VAT Law state that: "Any activity exercised by a government entity in its capacity as a public authority shall not be considered to be an Economic Activity for the purposes of the Law and these Regulations⁽¹⁴⁾." Accordingly, government entities

(14) Article 9(5), Registration provisions applying to specific circumstances, Implementing Regulations.



that do not carry on activities other than in their capacity as a public authority will not be required to register for VAT or to charge VAT on the activities carried on by them in their capacity as a public authority.

6.1 Government Entities Carrying Out Activities in Their Capacity as a Public Authority

Government entities are not defined, but this is intended to be interpreted broadly to include all forms of state and local government. This includes:

1. The statewide authorities (executive, judicial, and legislative authorities, and government ministries or departments);
2. Regional and local government authorities, including municipalities, and
3. Other bodies governed by public law that form part of the public administration or carry out the duties empowered and designated by the state. This includes government bodies of all types.

An activity carried out by a government entity in its capacity as a public authority shall not be considered an Economic Activity for the purposes of applying the Law and the Regulations, where all of the following conditions are met:

- a. The existence of a regulatory instrument authorizing the government entity to carry out the activity;
- b. The government entity does not carry out the activity in accordance with economic/commercial criteria;
- c. The government entity carries out the activity on an exclusive basis; exclusivity means the absence of competition with the private sector, such that no person other than government entities may carry out such activity.

Example (10):

A Saudi government authority has issued operational licenses to businesses in a certain sector as one of its core functions. The authority charges a fee of SAR 1,500 to the business for the license and an administrative fee of SAR 750 for renewal of the operational license. In this case, the government entity does not carry out an Economic Activity in respect of the issue and renewal of these licenses. Accordingly, VAT shall not be imposed on the fees charged to companies for



issuing and renewing such licenses. It should be noted that governmental activities, supplies, or services are not regarded as being outside the scope of VAT unless they are directly provided by the government entity empowered to do so. In certain cases, government entities may subcontract to a commercial business (whether private or owned by the state) to carry out certain parts of their functions. In such cases, the subcontractor is considered to be making such supplies in the course of its Economic Activity, even where these are used in providing a public service.

Example (11):

The government entity referred to in the previous example contracts with Al-Saad Co to carry out checks on whether persons applying to obtain licenses from them are complying with health and safety regulations, as a requirement for issuing the licenses, for 100 persons. Al Saad Co charges a fee of SAR 120 (exclusive of VAT) per check carried out on behalf of the government authority, but the government authority does not make any additional charges in respect of such check to persons applying for licenses. This fee is charged during Al Saad Co's Economic Activity and is subject to VAT. The VAT invoice issued by Al Saad Co will indicate the following:

Supplier: Al Saad Co TIN: 300 83438 00003	Date: 5th Dhu al-Hijjah 1442H/15th July 2021G Invoice No.: 315
Customer: Saudi Government Entity	Amount (SAR)
Health and Safety checks 100 x SAR 120 per check	12,000
VAT at 15%	1,800
Total payable	13,800

In other cases, commercial businesses are authorized to collect fees on behalf of the government entity with which they have contracted. If the fees are collected in the name of the government entity and form part of the government body's designated public activities, such fees shall not be subject to VAT despite being collected by a commercial business. However, the consideration for the services provided by the commercial company to the government entity shall be subject to VAT.

Example (12):

A visa office in the Kingdom of Saudi Arabia provides advisory services to Resident workers in the Kingdom of Saudi Arabia for the renewal of work visas. The visa office charges fees for



its services, and in addition, the office collects the visa fees from the client and transfers them directly to MOFA to obtain the visa. The fees that are transferred to MOFA are not subject to VAT. An invoice to the customer will include:

Supplier: Visa Office TIN: 30000 83438 00003	Amount (SAR)	VAT (SAR)	Date: 15 th August 2021G
Consultancy services	2,000	300	VAT at 15%
Health and Safety checks 100 x SAR 120 per check	12,000	0	No VAT
Total payable	14,000	300	

6.2 Commercial Activities

In certain cases, a government entity may carry out activities in addition to its designated functions, empowered by the state. Any commercial activities carried out by government entities may be viewed as an Economic Activity, as they are not performed by the government entity in its capacity as a public authority. Supplies made by government entities on an economic basis or on a non-exclusive basis may therefore constitute an Economic Activity⁽¹⁵⁾.

Example (13):

A local municipality has a budget surplus. For the purposes of fund management and investment, the municipality appointed an investment manager to invest part of the surplus in a commercial activity, which involves organizing conferences and events to generate additional income through the collection of rents and/or the sale of tickets for entertainment or cultural events. Given that the planned commercial activity does not fall within the municipality's statutory mandates, this activity is considered an economic activity

6.3 VAT Paid by Government Entities

Government bodies will, in all cases, be subject to VAT on supplies made to them by suppliers. Although the fees imposed by a government entity in the capacity of a public authority fall outside

⁽¹⁵⁾ Article 9(5), Registration provisions applying to specific circumstances, Implementing Regulations



of the scope of VAT, this does not entail that they do not pay VAT on supplies made to them.

6.4 Government-Owned Companies

In certain cases, a government entity will have the right to acquire shares in companies, such as Joint Stock Companies (JSCs) or Limited Liability Companies (LLCs) operating in the Kingdom of Saudi Arabia.

Such companies are not considered government entities, even in cases where a government entity owns all or most of their capital, nor do they act in the capacity of a public authority. Therefore, such companies will be viewed as carrying on an Economic Activity similar to privately owned companies.

Example (14):

A public utility provider is established as a JSC, with 60% of shareholdings held by a Saudi government entity, and the remaining 40% owned by private investors. The company provides utilities to private sector customers in return for regular fees. Accordingly, the JSC carries on an Economic Activity for the purpose of generating income and will be required to register for tax purposes in the event that the relevant conditions are satisfied.

7. Input VAT Deduction

7.1 Deduction of Input VAT for Economic Activities

A VAT registered person may deduct Input Tax charged on goods and services it purchased or received while carrying on its Economic Activity. The following may be deducted:

- VAT on the inputs of a VAT-registered person, charged by a VAT-registered supplier in the Kingdom;
- VAT on the inputs of a VAT-registered person self-accounted for by him under the Reverse Charge Mechanism;
- The VAT on imports to a VAT-registered person paid to ZATCA on imports of goods into the Kingdom.

If the consideration is not paid in full or in part within 12 months from the date of supply, the



deductible Input Tax amount must be adjusted, unless the taxpayer has evidence that the contract is still in force, that there is a dispute, or that payment will be made at a later date. The deduction may be reclaimed upon payment in the tax period in which the payment is made⁽¹⁶⁾.

In connection with the requirements for the Economic Activity, the Implementing Regulations of the Law state that a Taxable Person may deduct Input Tax charged on goods and services supplied to that Taxable Person in the course of carrying on its Economic Activity, to the extent that it enables such person to make the following supplies⁽¹⁷⁾:

- a. Taxable Supplies, including zero-rated Supplies;
- b. Internal Supplies;
- c. Supplies that would have been Taxable Supplies had they been made in the Kingdom.

Therefore, Input Tax deduction is only available for goods and services to the extent the recipient receives these whilst carrying on an Economic Activity.

As a general rule, Input Tax relating to VAT-exempt supplies may not be deducted. In addition, Input Tax may not be deducted on any costs not incurred as part of the Economic Activity (including some blocked expenditure types such as entertainment services and motor vehicles), or on any costs which relate to making VAT exempt supplies.

Input Tax is a credit entered on the VAT return, which is offset against the VAT charged on supplies (Output Tax) made during that period. Input Tax may be deducted only where the VAT-registered person holds a tax invoice or customs documents showing the tax due (or any alternative document demonstrating the amount of Input Tax paid or due for payment, subject to the approval of the Authority).

7.2 Apportionment Between Economic and Non-Economic Activities

Input Tax deduction is only available to the extent that costs are incurred during an Economic Activity⁽¹⁸⁾.

If a person carries on both Economic Activity and non-economic activity, the Input Tax deduction should be determined based on whether the supply made by the Taxable Person is while carrying

(16) Article 40(10) and (11), Implementing Regulations of the Law

(17) Article 49(1), Input Tax deduction, Implementing Regulations

(18) Article 49(1), Input Tax deduction, Implementing Regulations



out their economic activity, as follows:

Input Tax attributed to the supplies made to the Taxable Person while carrying on its Economic Activity	Deduct in full
Input Tax attributed to the supplies made to the Taxable Person while carrying on a Non-Economic Activity	No deduction
Other Input Tax that cannot be directly attributed to Economic or non-Economic Activities	Partial deduction based on apportionment

The VAT law does not set out a specified method or mechanism for the calculation of the apportionment between Economic Activities and Non-Economic Activity (as it does for taxable and exempt activities).

Taxpayers must use a method that clearly and fairly reflects how the supplies in respect of which tax has been paid by the Taxable Person have been used, and the extent to which they have been used in Economic Activities. Such method should be based on verifiable data, which can be reviewed by the Authority.

The Taxable Person must specify the amount of tax incurred on supplies received by him while carrying out an Economic Activity, and those received by him outside the Economic Activity, before apportioning Input Tax between taxable activities and exempt activities.

7.3 Apportionment Between Taxable and Exempt Activities

Input Tax incurred that relates to a taxpayer's tax-exempt activities, such as financial services or real estate supplies, is not deductible. A supplier making both taxable and exempt supplies can only deduct the Input Tax related to the Taxable Supplies.

For Taxable Persons who make both exempt and Taxable Supplies, the proportion of deductible Input Tax must be determined using the following steps⁽¹⁹⁾:

1. Apportionment of the amount of tax between the economic and non-economic activities, as set out in Section 7.2 above, where the tax on the Economic Activities will be the deductible Input Tax

(19) Article 51, Proportional Deduction of Input Tax, Implementing Regulations



2. Apportionment of the Input Tax relating to the Economic Activity between the Taxable Supplies and the exempt supplies

Input Tax is exclusively and directly related to the Taxable Supplies	Deduct in full
Input Tax is exclusively and directly related to the exempt sales	No deduction
Overheads, and all other Input Tax that cannot be directly attributed to Taxable Supplies	Partial deduction based on apportionment

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

The default proportional deduction is calculated based on the value of Taxable Supplies made during a specified year as follows:

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

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

The above equation does not include the value of supplies of capital assets made by the Taxable Person, as the value of the supply of capital assets is excluded from the total value of annual Taxable Supplies, provided that the capital asset is used to operate and enhance the continuity of Economic Activity that is practiced by the person according to a commercial registration or a similar license from the competent authority, and the asset should not have been kept to earn rental income or similar income or to supply it later.

Alternative methods for the calculation of the default proportional deduction other than the value of supplies may be approved with the Authority in cases where these better reflect the actual use



of VAT incurred. Further information about the deduction of VAT and proportional VAT recovery will be provided in a separate Guideline.

Example (15):

A municipal authority carries on its activity in a public capacity as required of it by the Ministry of Municipal and Rural Affairs. It also owns properties that it rents for residential and commercial usage. Accordingly, it may deduct Input Tax only in respect of costs and expenses related to the Economic Activity.

During 2021G, the supplies made by the municipal authority and the supplies received by it were as follows:

	Supplies made (SAR)	Taxable Supplies received (SAR)	Input Tax deduction
Public activities	0 No income: centrally funded	4,800,000 (Plus VAT of 720,000)	No Input Tax deduction - not incurred in Economic Activity
Taxable commercial rental	200,000 plus Output Tax of 10,000	50,000 (plus VAT of 7,500)	Input Tax deduction for SAR 7,500 from Output Tax
Exempt residential rental	300,000 (exempt from tax)	150,000 (plus VAT of 22,500)	No Input Tax deduction because the supplies are exempt from tax
Non-attributable overheads, relating to all activities, economic and non-economic	N/A	1,000,000 (plus VAT of 150,000)	Input Tax deduction for SAR 800



The authority's major activities are the activities that it carries out in its capacity as a public authority; therefore, non-attributable overheads relate to Non-Economic Activities, and partly to Economic Activities. The municipal authority must first perform an apportionment as set out in Section 7.2 of this Guideline, based on the supplies received, which reflects a fair and appropriate use of the overheads.

$$\frac{\text{Taxable Supplies received for Economic Activities}}{\text{Taxable Supplies received for economic and non-economic activities}} =$$
$$\frac{(50,000+150,000)}{(50,000+150,000+4,800,000)} = 4\%$$

It can be seen from the above that the proportion of overheads that can be attributed to Economic Activities amounts to 4% of the total overheads (SAR 40,000), and the VAT paid thereon is SAR 6,000. To calculate the deduction of Input Tax, the municipality must thereafter attribute that VAT of SAR 6,000 to Taxable Supplies and exempt supplies, using the apportionment mechanism between the Taxable Supplies and the exempt supplies, as follows:

$$\frac{\text{Value of Taxable Supplies made in the last calendar year}}{\text{Value of taxable and exempt supplies made in the last calendar year}} = \frac{(200,000)}{(300,000+200,000)}$$
$$= 40\%$$

Accordingly, the municipal authority is able to deduct Input Tax for SAR 2,400, 40% of the SAR 6,000 of VAT on overheads relating to Taxable Supplies.

7.4 Expenditure Incurred for Private or Non-Economic Activities

VAT may not be deducted from any supplies which are for private purposes, or not incurred as part of a person's Economic Activity.



Example (16):

An IT consultant registered for VAT purposes in the Kingdom of Saudi Arabia purchased a software subscription for use on his personal computer and paid additional fees for a family subscription, which allows the consultant's family to use the same software at home. The additional fees paid by the consultant for the family subscription are not incurred as part of the Economic Activity. Accordingly, the IT consultant is not able to recover VAT on these additional fees.

Some types of "blocked" expenditure (including motor vehicles and entertainment services) are deemed to be received outside the course of an Economic Activity and are specifically excluded from the right to deduct tax relating to such expenses⁽²⁰⁾.

7.5 Refund Claims for Eligible Entities

The Minister of Finance will issue a list of eligible persons who do not carry out an Economic Activity or who operate within a specified Economic Activity and who are permitted to request a refund of tax paid on supplies of goods and services received by them in the Kingdom of Saudi Arabia⁽²¹⁾.

Certain bodies that do not carry on Economic Activity and cannot register for VAT may instead be eligible to submit claims for refund of VAT under this mechanism upon being included in the list of qualifying persons.

Suppliers or service providers contracting with the government or public bodies should ensure that the tax invoices are issued showing accurately and correctly the name of the customer (buyer).

7.6 Transfer of Economic Activity

The transfer of an Economic Activity from one person to another shall not be considered a taxable supply where the transfer meets the following conditions:

1. Includes the assets, goods, and services necessary to operate the activity independently;
2. The activity is capable of being continued by the recipient;

(20) A detailed list of blocked expenditures is set out under Article 50(1), Goods and Services Deemed Received Outside the Scope of Economic Activity, Implementing Regulations

(21) Article 70(1), Refund of Tax to Designated Persons, Implementing Regulations



3. Both the supplier and the recipient are Taxable Persons;
4. The Authority is notified of the transfer in accordance with an approved form containing the basic details of the parties and the details of the transfer.

Upon completion of the transfer, the recipient is substituted for the supplier in the tax rights and obligations associated with the activity, while both parties shall remain liable for any outstanding obligations unless otherwise agreed. The recipient must obtain a Tax Identification Number prior to the date of transfer, as the supplier's Tax Identification Number shall not be transferred.

If the transfer of the Economic Activity does not meet all the above conditions, the Authority shall treat the transferred goods and services as a taxable supply. In other words, the transfer shall only be excluded where all conditions are satisfied; otherwise, it is treated as a normal supply transaction.

8. Tax Obligations

All Taxable Persons must assess their tax obligation and comply with the conditions and obligations relating to VAT. This includes registration for VAT as required, accurately accounting for the net amount of tax due and payable, and paying the tax when due, as well as keeping all the necessary records and cooperating with officials of the Authority when required.

If a person is unsure of his obligations, he must contact the Authority through the website zatca.gov.sa or other means of communication, and he may also seek to obtain external advice from a qualified consultant. The most important tax obligations provided for in the Law and the Regulations are set out below.

8.1 Tax Identification Number

All persons who carry on an Economic Activity and are registered for VAT purposes will receive a Tax Identification Number issued by the Authority.

8.2 Residence of Supplier

The rules relating to the place of supply will, in many cases, be determined based on the place of residence of the supplier or the customer. The expression "Resident" includes a Resident company if it has been established under the laws of the Kingdom, or if its central management is



in the Kingdom. If a company or other legal person is incorporated outside the Kingdom, but has a branch, place of business, or any other type of fixed establishment in the Kingdom, that company is also a Resident.

8.3 Charging VAT

Where a supply is made by a Resident supplier, that supplier is responsible for being registered for VAT (if required) and charging VAT at the appropriate rate. The registered supplier must issue a tax invoice for each taxable supply. If a supply of goods or services is made by a non-resident supplier to a recipient who is Resident in the Kingdom and registered for VAT, the supplier should not charge VAT. The recipient is responsible for accounting for the tax under the Reverse Charge Mechanism and reporting the VAT (at the applicable rate) in the VAT return.

Further information on this mechanism is provided in a separate Guideline available at [zatca.gov.sa](https://www.zatca.gov.sa).

So far as concerns Taxable Supplies subject to the basic rate of VAT (15%), VAT will be calculated at the rate of 15% on the total value of the supply⁽²²⁾. In cases where the supplier receives money for the supply inclusive of VAT, VAT will be included in the amount received (VAT being calculated as being 15/115 of the amount received). Section 11 of this Guideline contains further information concerning supplies during the transitional period.

8.4 Issuing Invoices

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

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

(22) Article 25, Tax Rate, Unified VAT Agreement, and Article 26 – Value of Supply of Goods and Services, Unified VAT Agreement



The tax invoice must clearly detail certain information, such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged⁽²³⁾. If different rates have been applied to the supplies, the value of each item must be specified separately, as well as the VAT applied to that item. The tax invoice may be issued in the form of a commercial document (such as a ticket receipt), provided that the document contains all of the requirements for the issue of tax invoices and simplified invoices set out in the Implementing Regulations of the Law.

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

Further information on the requirements for tax invoicing can be found in the VAT Guideline or at zatca.gov.sa

8.5 Filing VAT Returns

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

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

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

Further details on the filing of VAT returns will be provided in a separate Guideline.

8.6 Keeping Records

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

- Tax invoices issued and received

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



- Books and accounting documents
- Contracts or agreements for large sales and purchases
- Bank statements and other financial records
- Import, export, and shipment documents
- Other records relating to the calculation of VAT

Records may be kept in paper form or electronically, provided that the conditions specified in the Implementing Regulations of the Law are met⁽²⁴⁾. These records must be made available to the Authority upon request. All records must be kept for at least the standard retention period of 6 years. The minimum period for the keeping of records is extended to 11 years in connection with invoices and records relating to movable capital assets, and 15 years in relation to invoices and records relating to immovable capital assets⁽²⁵⁾.

8.7 Certificate of Registration within the VAT System

A Resident person who is subject to VAT and registered with the Authority in the VAT system must display a certificate to the effect that he has been registered in the VAT system in a place visible to the public at his main place of business and at all his branches and his online marketplaces⁽²⁶⁾.

In the event of a contravention, the person in breach will be liable to the penalties provided for in the Law.

8.8 Request for an Interpretive Decision (Tax Ruling)

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

8.9 Correcting Past Errors

If it becomes apparent to the taxpayer that there is an error or an incorrect amount in a filed VAT

(24) Further detail in Article 66(3), Records, Implementing Regulations

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

(26) Article 8(8), Application for registration, Implementing Regulations



Return, or of any other VAT obligation which he has not complied with, he should notify the Authority and correct the error by amending the VAT tax return. Errors resulting in a net understatement of VAT above SAR 15,000 must be notified to the Authority within 20 days of becoming aware of the error or incorrect amount, and the taxpayer must amend the previous return⁽²⁷⁾.

For small errors, resulting in an understatement of the net VAT of less than SAR 15,000, he may instead correct the error by adjusting the net tax in the following VAT return.

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

9. 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⁽²⁸⁾.

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.

(27) Article 63, Correction of Returns, Implementing Regulations

(28) Section 16, Articles 41, 42, 43, 44, and 47, Tax Evasion and Penalties, VAT Law



Collection of VAT without registration for tax purposes.	A penalty of up to SAR 100,000.
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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.

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

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.

Where the difference between the calculated tax and the due tax is less than SAR 5,000.

Field Violations

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

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

10. Contact Us

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



11. Frequently Asked Questions

1. Do I need to charge VAT on supplies I make to a government entity?

Yes. Even if a government entity does not carry on an Economic Activity, supplies to government entities will still be subject to VAT, similar to supplies to a consumer.

2. Will the Government include VAT on its charges to me?

This depends on whether its charges are made in its capacity as a public authority. You may wish to speak to the government entity regarding the supplies of goods or services, to confirm the appropriate VAT treatment, since the supplier has the responsibility to apply the correct VAT treatment.

3. Is VAT included in wages?

No, wages or salaries paid to employees are not consideration for supplies made during an Economic Activity, and therefore VAT should not be charged.

4. We are a charitable association registered as a private association with the Ministry of Labor and Social Development. How does VAT apply to us?

You must review your activities in accordance with the VAT Law and the Implementing Regulations of the Law, and the summary provided in this Guideline to determine if you carry on an Economic Activity, and whether you must register for VAT or not. If you make sales of goods and services to third parties, you will likely need to register for VAT and charge VAT on those sales.

5. Does VAT apply to non-profit organizations?

In principle, yes. VAT applies to any organization that carries out an Economic Activity. For VAT purposes, the organization doesn't need to seek to make a profit on its Economic Activities.

6. I have sold my car online. Do I need to charge VAT?

If this is a one-off sale of your personal vehicle, you are not required to apply the tax, as this isolated sale does not constitute an Economic Activity.



7. We are a holding company in the Kingdom, and we do not sell goods or provide services, nor do we have any revenues (only management operations for subsidiary companies, and collecting profits from them). If we buy assets for the business "capital expenses", will the tax paid thereon be claimable? And what if there has been registration as a tax group?

If the company has not carried on any Economic Activity, it may not deduct Input Tax incurred on capital assets. However, the provision of services to the subsidiary companies is an Economic Activity. If the holding company has carried on Economic Activities and has been registered as a tax group, the company may reclaim tax paid on commercial assets used in that Economic Activity in accordance with the usual rules governing tax deduction.



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