VAT

هيئة الزكاة والضريبة والجمارك
Zakat, Tax and Customs Authority

Guideline for

Calculation of Value Added Tax on the Profit Margin for Qualified Used Cars Simplified

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 (henceforth 'ZATCA') has issued this Tax Circular to clarify certain treatments related to the implementation of the statutory provisions in force on the date of its issuance. The content of this Circular 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 Circular, where applicable, considering the relevant statutory provisions. If any clarification or content contained in this Circular 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 Circular on the Authority's official website.

This Guideline explains the Resolution issued by the Board of Directors of the Zakat, Tax and Customs Authority regarding the application of the profit margin mechanism on the supply of qualified used cars, effective from 1st July 2023.

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1. About the Resolution

Effective from 1st July 2023, a Person subject to Value Added Tax (henceforth 'VAT') and licensed to engage in the activity of car trading may apply the profit margin method to qualified used cars after obtaining the approval of the Zakat, Tax and Customs Authority (henceforth 'ZATCA' or 'Authority'), so that the tax is applied only to the profit margin instead of being applied to the total sale amount of the car.

Normal Method	Profit Margin Method
VAT is calculated by the person registered for tax purposes upon the sale of a used car on the total selling value, regardless of the profit margin.	VAT is calculated on the profit margin only by the person registered for VAT purposes and qualified to use the profit margin method.

What is meant by profit margin?

It is the difference between the purchase price of the used car and the selling price.

2. To whom does this Resolution apply?

It applies to persons subject to VAT who are licensed to engage in the activity of car trading pursuant to a commercial registration or similar license, such as car agencies and showrooms. This Resolution is not considered mandatory, as those licensed to engage in the activity of car trading who wish to do so may use the profit margin method on their sale of used cars, or they may apply the tax to the total gross sale amount of the car.

3. Conditions for Applying the Resolution

The following conditions must be met to apply the profit margin method to used cars:

1. The car must be classified as a "qualified used car" by the Authority.
2. The used car must be registered in the Kingdom.
3. The taxable person must be among the persons licensed to engage in the activity of car trading pursuant to a commercial registration or similar license.
4. The person licensed to engage in the activity of car trading must obtain the Authority's approval to use the profit margin method for used cars.
5. The taxable person must not have incurred input tax in accordance with the normal method on the consideration paid when purchasing the qualified used car.
6. Fulfillment of tax invoice requirements and record-keeping in accordance with the provisions of Articles 48 and 53 of the Implementing Regulations of the VAT Law.

4. Conditions for Classifying a Car as a "Qualified Used Car"

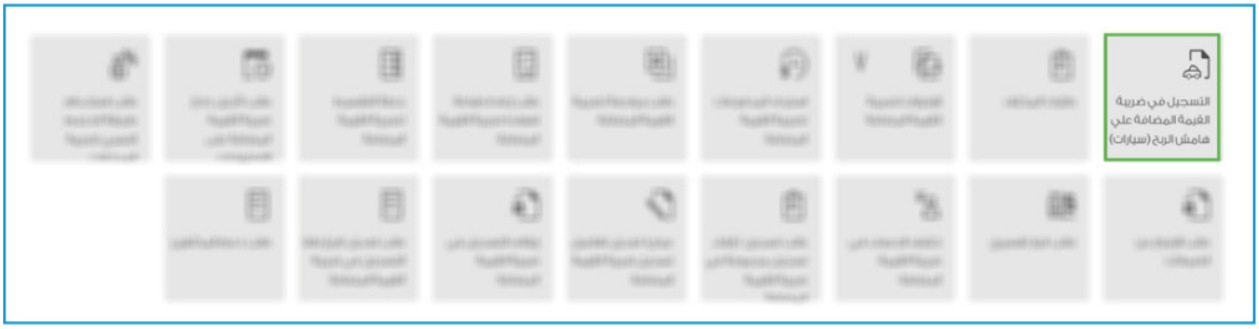
1. The car must have been driven on the road for personal or business purposes.
2. The used car must be registered in the Kingdom.
3. The car must be fit for reuse in its current condition or after undergoing some improvements, provided that such improvements do not result in changing the basic nature of the car.

What are the cars that are not qualified for the profit margin method?

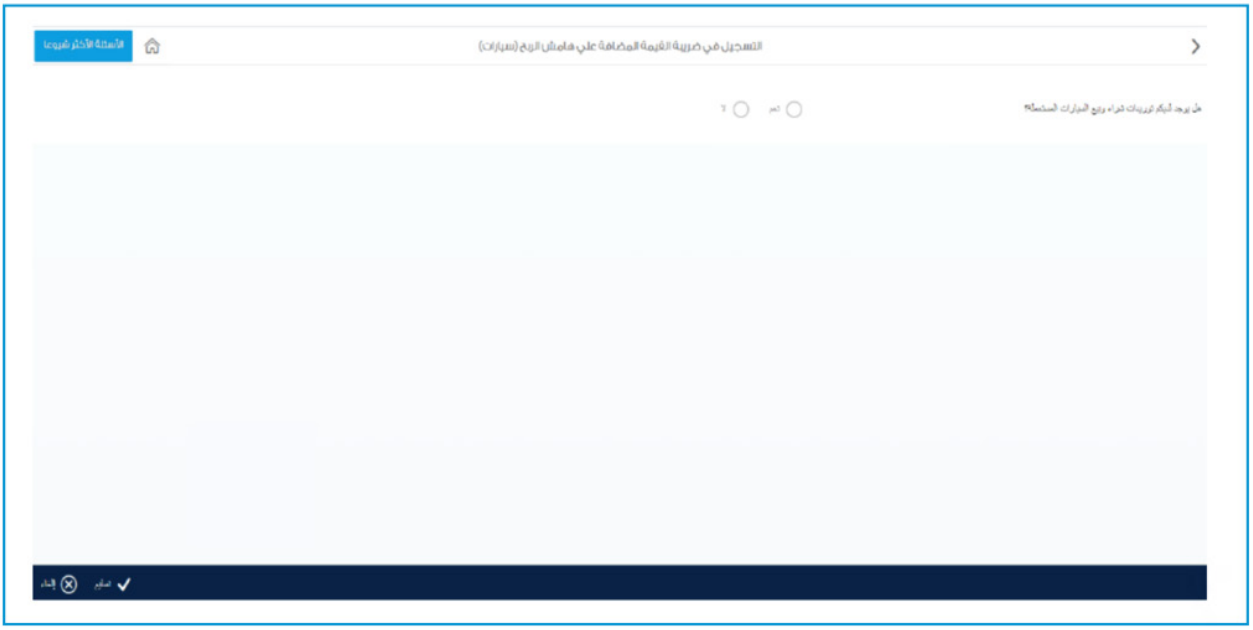
1. New cars.
2. Cars imported into the Kingdom, even if they were used outside the Kingdom.
3. Any car that is purchased and has VAT calculated on it separately in the invoice according to the normal method.
4. Cars not classified as qualified used cars by the Authority.

5. How to Apply for Using the Profit Margin on Used Cars?

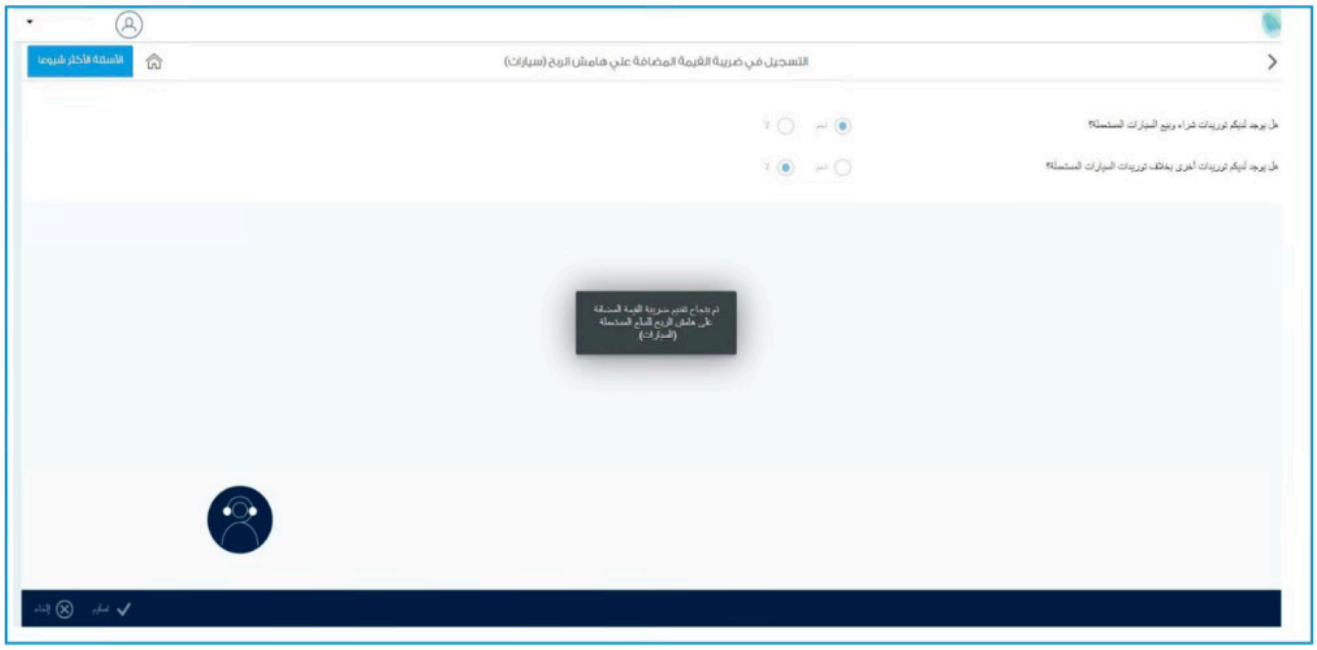
1. Access the service via the Zakat, Tax and Customs Authority portal.



2. Access the service via the Zakat, Tax and Customs Authority portal.







3. Review and approval of the request by the Authority.
4. Notification of approval.

6. Tax Return Filing Mechanism



Example 1:

A showroom registered for VAT and qualified to use the profit margin method purchased a qualified "used" car, a 2021 model, for a value of SAR 80,000, and offered it for sale in the showroom for a value of SAR 103,000 with a profit margin of SAR 23,000.

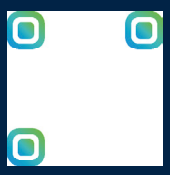
Before the Resolution	After the Resolution
VAT is calculated by the person registered for tax purposes upon the sale of the used car on the total selling value, regardless of the profit margin.	VAT is calculated on the profit margin only as follows: SAR 23,000 × 15/115 = SAR 3,000. This is performed by the person registered for VAT purposes and qualified to use the profit margin method.

Example 2:

Sarah Showroom for used car sales purchased a car, a 2020 model, compliant with standard specifications from another country, for a value of SAR 100,000.

After applying the Resolution

VAT is calculated on the total amount, not the profit margin, because the car is not registered in the Kingdom.



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