



VAT Alert



The General Authority of Zakat and Tax (GAZT) is actively engaging with businesses throughout the Kingdom in an effort to ensure VAT readiness before the target date of 1 January 2018. In the first of its VAT awareness sessions, the GAZT released some important information around the administration of VAT.

Last week, over 200 business representatives across the Kingdom attended the VAT session hosted by Mr. Misfir Al-Dihaim, head of the legal team for indirect taxes at the GAZT. The session was focused on the current VAT updates and provided important information around the administration of VAT.

The key points of discussion are set out below:

Effective date

The target date for VAT implementation remains January 1, 2018, across all member states of the Gulf Cooperation Council (GCC).

Draft legislation

The draft VAT legislation is expected to be released within two weeks and will outline the key types of supplies, upon which VAT will be levied. These will include standard rated taxable supplies, zero rated taxable supplies, exempt supplies, and supplies which are outside of the scope of VAT.

Registration and reporting:

VAT registration is mandatory for all business with a taxable annual income, which exceeds **375,000 SAR**. VAT registration will be available via the ERAD system from the third quarter of 2017.

VAT reporting and filing

Large businesses will be required to file their VAT returns on a monthly basis. Although the GAZT has not yet clarified what constitutes a large business, the level of taxable income would be the obvious basis. Medium and smaller business entities will file their VAT returns on a quarterly basis.

Penalties for errors

The GAZT has indicated that penalties for errors and omissions will range from 2% to 100%, payable in addition of the original net VAT liability. The level of penalty will depend on the deliberateness, severity, and frequency of the violations which include:

- failure to register as a VAT entity for qualifying entities,
- failure to submit the VAT returns on the specified dates and timelines,

- failure to comply with the GAZT published VAT laws and regulations,
- failure to maintain sufficient evidences and transactional documentations ,
- failure to report actual VAT liability and reclaimable figures.

In addition, GAZT declared that in cases of severe violation (deliberate evasion) penalties could be up to 200% of the net VAT payable. It is also worth noting that criminal charges could be enforced in cases of deliberate errors and fraud.

The key takeaway

The impact of the prospective VAT penalties could carry significant effects on businesses. In order to avoid any violation, it is critical to have the proper systems, processes, and people in place. Finally, it appears that the GAZT will take a zero tolerance approach when it comes to errors and penalties for the VAT violations are likely to be significantly larger than for corporate tax or zakat. This is notwithstanding the reputational damage this could have on your business.



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