



Saudi Arabia Issues draft VAT Implementing Regulations



Summary

The General Authority of Zakat and Tax (“GAZT”) has issued the [Value Added Tax Draft Implementing Regulations](#) for the purposes of public consultation. The deadline for any comments or questions is **August 19, 2017**.

The implementing regulations should be read in conjunction with both the Unified VAT Agreement of the Gulf Cooperation Council “GCC framework” and the Saudi VAT Law “the Law”.

Divided into 12 distinct chapters, the regulations provide the finer details around the VAT mechanism, treatment transactions, registration criteria and administration.

Key Considerations

Group VAT Registration

The regulations have provided around the availability of Group registration, which will be available for business’s which are located within the Kingdom and are commonly controlled – of course, this will only be granted at the GAZT’s approval.

Businesses and individuals with a taxable turnover exceeding 375,000 SR are required to register. The registration system for both single and group registration is expected to open in September via the GAZT website.

Transitional Provisions

One of the major concerns for businesses is the applicability of VAT on existing and long-term contracts and whether VAT will apply retrospectively.

The regulation has attempted to provide clarity around this. In brief, contracts established with no anticipation of VAT can be treated as zero-rated and this treatment can remain until the end of the contract or until **December 31, 2022** whichever comes first. However, very strict and narrow conditions will apply, as below:

1. The contract is established before **May 31, 2017**
2. The customer must be entitled to deduct input tax with respect of the supply of goods or services.

3. The customer must provide a written certificate to the supplier, presenting his eligibility to deduct or refund input tax.

Finally, any GCC countries who elect not to implement VAT by **January 1, 2018** will be treated as any other country outside the GCC.

Exempt Supplies

As expected financial services are exempt from VAT, specifically, transactions involved in:

- issuing, transferring, dealing with money or other financial securities
- provision of credit
- the operation of any current depositary or savings accounts
- financial instruments including derivatives, options, swaps, credit default swaps and futures
- Life insurance contracts.

The supplies of residential real estate (leasing and license to occupy) will also fall within the exemptions. This is likely to have a major impact for developers who could face themselves with significant irrecoverable VAT cost.

Zero-rated Supplies:

The Regulations provides that the following supplies are going to be as zero-rated supplies:

- Exports of Goods from the Kingdom
- Services provided to non-GCC Residents
- Transportation Services of Goods or Passengers outside the Kingdom and supplies relating to Transportation
- Medicines and medical equipment
- Supplies of investment metals

Noteworthy, all these supplies are subject to broader definitions and provisions.

Filing and Invoicing

Companies with annual income exceeding **40,000,000 SAR** must file their returns on a **monthly basis**. Other companies who do not fall into the previous category must file their returns on a **quarterly basis**. Payments must be made by no later than the last day of the following months.

Tax invoices must be issued within **15 days** of the month following the month in which the supplies took place on. All tax invoices must be prepared in **the Arabic language**; items to be included in the invoice are not limited to the following: the date of issue, invoice sequential number, Supplier Tax Identification Number, customer legal name, customer address etc.

Next Steps:

Businesses operating in the Kingdom need to take immediate steps to ensure their VAT readiness before implementation date.

KPMG are currently engaging with business sectors to discuss their specific risk and opportunity areas in light of the regulations.

Should you require any assistance in this regard, please contact your local VAT team.



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