

Ensuring accurate VAT compliance



Last month, the successful filing of the Value Added Tax ('VAT') returns for the month of December 2018 marked the completion of one year of VAT compliance for taxpayers in Saudi Arabia. Taxpayers can now look forward to filing the first VAT returns for 2019.

While many lessons would have been learnt in terms of the return filing process during last year, compliance for the new year requires taxpayers to consider a new set of actions to address the legislative provisions which take effect in 2019.



Lapsing of the transitional provision for zero rating domestic supplies

The VAT Implementing Regulations provided a relief to the taxpayers to treat some domestic supplies as zero rated in the year 2018 (subject to specific conditions) where the contract was entered before 30 May 2017. Many taxpayers were using this benefit in the previous year.

However, from 1 January 2019, such taxable supplies must now be subject to VAT at 5%. Accordingly, the taxpayers should discontinue treating these supplies as zero rated from this date.



Outstanding payments to vendors

The legislation imposes a condition on the taxpayers who have deducted input VAT to make the payment to the vendor within 12 months from the date of the supply in order to deduct this input VAT. If the payment remains outstanding, the taxpayer is obliged to reduce the input VAT deduction claimed earlier to the extent the consideration has not been paid to the vendor.

Given these details are usually not available in the reports used for return preparation, it is imperative that the taxpayers start collecting these details in 2019 from the creditor aging report (as 12 months have already passed since the first VAT invoices were received). The corresponding adjustment to the input VAT deduction shall be required to be made in the returns to be filed by the taxpayer. The delayed reporting/non-reporting of these transactions will lead to tax assessments, penalties/fines from the GAZT. Once the payment is made to the vendor, the said VAT amount can be reclaimed.



Reduction in registration threshold turnover

For the year 2018, a transitional relief was provided to the small and medium-sized enterprises in Saudi Arabia wherein it was prescribed that only entities with a turnover of more than SAR 1 million were required to register for VAT. Effective 1 January 2019, any entity with a turnover of more than SAR 375,000 is mandatorily required to be registered for VAT.



Deregistration

During the time when VAT was implemented in Saudi Arabia, some entities who were registered with the GAZT for Corporate Tax /Zakat were granted a suo motu VAT registration by the GAZT. Once these businesses realized they did not exceed the limit for mandatory registration, they decided to apply for deregistration. However, their applications were rejected by the GAZT on the ground that as per the legislation, taxpayers cannot apply for deregistration where they have been registered for less than 12 months.

Those taxpayers that obtained their VAT registration before 1 January 2018, could now be eligible to apply for deregistration if their supplies for the past 12 months do not exceed the mandatory registration threshold of SAR 375,000 (subject to conditions).

Separately, for non-resident taxable persons, if they have not made any taxable supplies for which they are obligated to report tax in Saudi Arabia in the past 12 months, they are required to mandatorily deregister from VAT.



Change in ratio for proportionate input tax deduction

With the advent of the new financial year, the calculation of the proportionate input tax deduction for expenses used for VATable and non-VATable supplies would also undergo a change. The legislation prescribes that the fraction used to determine the proportionate input tax deduction should be calculated as per the information for the last financial year.

Many of the taxpayers undertaking proportionate input tax deduction would have undertaken the exercise of computing the actual fraction for the year 2018. Given the revenue numbers for the financial year 2018 for most of the taxpayers would be finalized by now, it is imperative that this fraction is revised (after considering the audit adjustments) and used for the proportionate input tax deduction during 2019.



Capital Asset Adjustments

A taxpayer involved in exempt activities is also required to adjust the input tax deducted on capital assets by comparing the actual use of the asset with its intended use after each period of 12 months from the tax period of purchase. For the purpose of the said computation, it is expected that the taxpayer has retained the details of the intended and actual use at an individual capital asset level.

For capital assets purchased during January 2018, this adjustment is required to be undertaken during the January 2019 tax period.



Bad debts

The legislation provides relief to the taxpayers for reduction of output tax to the extent they do not receive the full or part of the consideration for a taxable supply previously made. One of the key requirement to obtain relief is that a period of 12 months has passed from the date of the taxable supply. While many taxpayers would have recognized certain revenue as bad debts in 2018, the requirement that 12 months must lapse, restricted claiming relief in their VAT returns.

Given that it has been more than a year since VAT has been introduced in Saudi Arabia, taxpayers should analyze whether they have any bad debts during their return period for which 12 months have lapsed. It is important that the relief prescribed under the regulations should be claimed once they fulfill the other required conditions. This will help in reduction of the output VAT liability of the taxpayers and mitigate the impact of the bad debt on the working capital of the business. A debtor aging report can also be run by the taxpayers to analyze if there are any transactions on which benefit can be availed by their businesses.



Post implementation assurance

During the last year, GAZT has been very active and issued 24 detailed VAT guides on different topics which provide an indication of the view the GAZT has adopted on various topics and industry issues. As most of the taxpayers based their IT systems and business processes on the VAT implementation exercise conducted prior to January 2018, it would be advisable for the taxpayers to conduct a post implementation review to ensure their VAT systems and processes adhere to the legislative provisions and updated guidance. Considering the rules are new and many questions remain in dispute, it is also advisable to have a second opinion on the VAT compliance in addition to the one provided by the in-house team or external consultants.

Also, in the age of data analytics, there are solutions available which take the process of VAT review further by analyzing the data from the ERP systems directly and providing reports on exceptions from a VAT perspective. This provides a more insightful analysis of the potential pitfalls and challenges for the taxpayer. KPMG has developed the Tax Intelligence Solution ('TIS') which has proven to be a highly effective tool in KSA for identifying potential VAT post-implementation issues.

KPMG has a qualified national VAT team located in Riyadh, Jeddah and Al-Khobar which is available to help you with these and other possible VAT questions.

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