



# VAT alert

## Business impact of amendments to service export conditions

August 2019



The Board of Directors of the General Authority of Zakat and Tax ('GAZT') approved amendments to the Value Added Tax Implementing Regulations vide Decision No 9-3-19 dated 3 July 2019. The amendments were published on the Um Al-Qura electronic portal on 18 July 2019, making them effective from that date.

One of the important changes made by the said amendment is with regard to the conditions of what qualifies as an export of service. We have outlined below the key impact the said amendment shall have on businesses going forward.

### Deletion of conditions relating to consumption and benefit outside KSA

Conditions e) and f) of Article 33 of the old Regulations have been deleted vide the aforementioned amendment. These conditions previously required the supplier to have knowledge of whether the recipient of the services intended to consume the services outside the GCC territory and to confirm that it had no evidence the benefit of the service would be enjoyed in the GCC territory.

This created a concern in a situation where the customer of the taxable person is outside KSA but the ultimate beneficiary of the service (i.e. the customer's customer) is a legal person in KSA.

In such a situation, we had observed that various entities were charging VAT on the grounds the ultimate benefit of the service is enjoyed within KSA and consequently, these services would not qualify to be zero rated.

### Reconsideration of taxability position going forward

Given the said conditions have now been deleted, it is imperative that taxpayers in KSA revisit such arrangements and explore if a zero-rating position can be adopted for services provided to clients where the ultimate beneficiary is in KSA.

If the services qualify, the zero rating should be available for services rendered on or after 18 July 2019. The impact of the same, if any, should be considered and appropriately disclosed in the returns to be filed July 2019 onwards. More generally, businesses should think carefully about the impact of the amendments on the current and future activities.

For further discussion on how these changes may impact your business and the next steps to be taken in this regard, please feel free to connect with our team members.

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