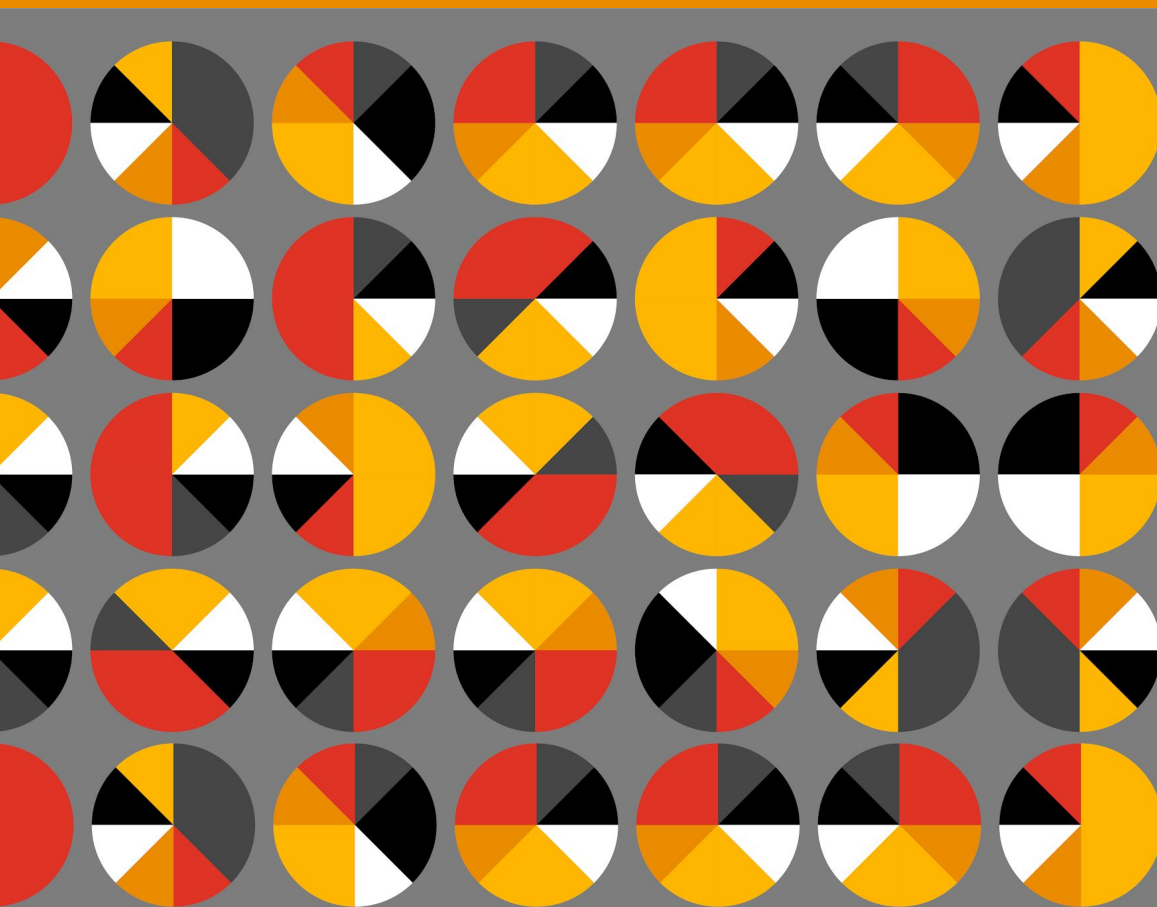


Saudi Arabia: Guidance issued by GAZT on VAT rate increase

May 2020



In brief

On 11 May 2020, the Government of the Kingdom of Saudi Arabia ('KSA') announced several measures to counter the financial and economic impact of COVID-19 on the government budget. One such measure was an increase in the VAT rate to 15% that would be applicable from 1 July 2020 onwards.

In order to assist taxpayers in the preparation of the VAT rate increase, the General Authority of Zakat and Tax ('GAZT') has issued guidance this week on the transitional measures that would need to be considered for supplies that are made during the transitional period.

The recent guidance also confirms that the transitional period for the VAT rate increase would be from 11 May 2020 to 30 June 2021.

In detail

Following the announcement from the Government of KSA on 11 May 2020 that the standard rate of VAT would increase to 15% from 1 July 2020, GAZT has now issued further guidance on the rate change in Arabic. The purpose of the guide is to provide additional details on the transitional measures that taxpayers would need to consider.

The guide sets out a transitional period for the VAT rate increase from 11 May 2020 and 30 June 2021 and provides specific guidelines on government contracts, agreements signed before and after 11 May 2020 and the VAT treatment of supplies made after 1 July 2020 where tax invoices have been issued prior to this date.

In determining the VAT rate that would apply on supplies made during the transitional period, taxpayers would need to consider a number of factors including the date when contracts have been signed, whether a customer is entitled to full input tax recovery and if a tax invoice has been issued prior to 1 July 2020.

Further details on the guidance issued by GAZT has been set out below.

Government contracts

The guide sets out that in order to determine the VAT treatment of supplies made after 1 July 2020 to a government entity, a taxpayer should consider the date on which the agreement was signed.

As a general note, the guide confirms the following treatment for government contracts:

Date the contract was signed	VAT treatment
Prior to 11 May 2020	VAT at 5% for supplies made after 1 July 2020 until the earlier of: <ul style="list-style-type: none"> ○ The expiry date of the contract, ○ The renewal date of the contract, or ○ 30 June 2021
Between 11 May 2020 and 30 June 2020	If the actual supply is made on or before 30 June 2020 - VAT at 5%
	If the actual supply is made on or after 1 July 2020 - VAT at 15%

Further, the guide explains that where a tax invoice has been issued at 5% for supplies that would be subject to VAT at 15%, the taxpayer would be required to issue a tax invoice for the additional VAT due.

Contracts between two VAT registered persons

Similar to government contracts, the guide sets out that taxpayers would need to consider the date on which an agreement has been signed in order to determine the VAT treatment that would apply on supplies made after 1 July 2020.

As a general principle, the guide confirms the following treatment:

Date the contract was signed	VAT treatment
Prior to 11 May 2020 and the customer has the right to deduct the full input tax	VAT at 5% for supplies made after 1 July 2020 until the earlier of: <ul style="list-style-type: none"> ○ The expiry date of the contract, ○ The renewal date of the contract, or ○ 30 June 2021
Between 11 May 2020 and 30 June 2020	If the actual supply is made on or before 30 June 2020 - VAT at 5%*
	If the actual supply is made on or after 1 July 2020 - VAT at 15%*

**Where the supply is partially made prior to 1 July 2020 and partially after this date, a taxable person must apportion the consideration received for the supplies made to determine the VAT that would be due at 5% and the VAT that would be due at 15%.*

Subject to where the tax invoicing rules (set out below) would apply, further clarity would be required on contracts between two VAT registered persons signed prior to 11 May 2020, where the customer does not have the right to full input tax. Based on the guide, it could be assumed that any supplies made after 1 July 2020 under contracts signed prior to 11 May 2020 would be subject to VAT at 15% where the customer cannot recover all of the input tax charged.

Tax invoices issued prior to 1 July 2020

The guide sets out special transitional rules that would apply for supplies made on or after 1 July 2020 where the tax invoice has been issued prior to this date. The Guide confirms the following treatment:

Date the tax invoice is issued	VAT treatment
Prior to 11 May 2020	Any supplies made on or after 1 July 2020 but before 30 June 2021 - VAT at 5%
Between 11 May 2020 and 30 June 2020	If the actual supply is made on or before 30 June 2020 - VAT at 5%
	If the actual supply is made on or after 1 July 2020 - VAT at 15%

Through examples, the guide also clarifies that:

- Where a tax invoice is issued before 11 May 2020 for supplies that extend beyond 30 June 2021, the value of the supplies made until 30 June 2021 would be subject to VAT at 5% and the value of the supplies made after this date would be subject to VAT at 15%.
- There may be instances where a contract is entered into prior to 11 May 2020 and under the agreed terms, a monthly payment/premium is made by the customer and tax invoices would be issued by the supplier each month. The guide confirms that in such cases, the supplies made on or after 1 July 2020 would be subject to VAT at 15% and the tax invoices issued after this date should also be at the higher rate.
- Where a tax invoice has been issued at 5% for a supply that would be subject to VAT at 15% based on the guidelines set out by GAZT, a taxpayer would be required to issue an additional tax invoice for the same supply for the VAT difference due.

Summary

The guidance issued by GAZT will be helpful for businesses as they begin to prepare for the implementation of the VAT rate increase. Further practical considerations may need to be addressed in specific situations.

However, as an immediate step, taxpayers should begin to understand the impact of this guidance on their business and what next steps they should take in order to prepare for the VAT rate increase on 1 July 2020.

A link to the guide published by GAZT can be found on their website and is currently only available in Arabic: <https://gazt.gov.sa/ar/HelpCenter/guidelines/Pages/default.aspx>

Let's talk

For a deeper discussion of how this issue might affect your business, please contact one of the tax partners below:

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