

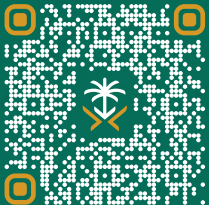


الهيئة العامة للزكاة والدخل
General Authority of Zakat & Tax



Change of VAT Rate to 15%

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Table of Content

1. Introduction	4
2. Charging VAT at 15% on Supplies made from 1 July 2020	5
2.1. Section summary	5
2.2. Calculation of Tax due on Taxable Supplies	5
2.3. Retail sales made from 1 July 2020	7
2.4. Special relief for existing commercial contracts (Transitional Period)	9
2.5. Relief for existing contracts with Government authorities	11
2.6. Existing Commercial Contracts – applying VAT at 15% rate	12
3. Purchases	12
3.1. Section summary	12
3.2. Input Tax deduction	12
3.3. Tax Invoices	13
3.4. Simplified Tax Invoices	14
4. Transitional Rules	15
4.1. Overview	15
4.2. Introduction	16
4.3. Continuous supplies	16
4.4. Advance invoices issued before the Date of Supply (non-continuous supplies)	19

5. Specific Transactions	21
5.1. Supply of Real estate	21
5.2. Vouchers	22
5.3. Tickets for travel or live (entertainment) performances after 1 July 2020	23
5.4. Sale of rights to goods or services supplied on or after 1 July 2020	24
5.5. Reverse charge transactions	24
5.6. Imports	25
5.7. Insurance	25
5.8. Coin operated machines	26
5.9. Proportional deduction	26
5.10. Contracts with government authorities registered for VAT purposes	27
6. Taxpayer obligations	27
6.1. Overview	27
6.2. Tax Invoices	27
6.3. Tax Return	27
6.4. Accounting systems	28
6.5. Cash accounting	28
6.6. Credit notes – Cancelling the supply or adjustments to value of supply	29
6.7. Credit notes – adjustments to the rate of Tax	30
6.8. Correction of error in VAT return	30
6.9. Misuse of change of rate provisions	31

Appendix: Legal Provisions related to the Revised VAT rate of 15% commencing 1 July 2020 as per the VAT Law and its Implementing Regulations

1. Introduction

Background to the revised rate of VAT

Value Added Tax ("VAT" or "Tax") has applied in the Kingdom of Saudi Arabia ("KSA") since 2018 at a standard rate of 5 % on all supplies and importations, with limited exceptions (such as zero rated supplies and exempt services). On 11 May 2020, the Ministry of Finance announced a change to the domestic VAT laws would take place to increase the standard rate of VAT to 15% ("the revised rate"), as part of a range of necessary measures undertaken to protect the Saudi economy and overcome the unprecedented financial and economic ramifications of the global coronavirus pandemic in the best way possible.

The revised VAT rate of 15% remains lower than the VAT rates in comparable global economies and lower than the average global VAT rate.

Impacts of the VAT rate change for Taxable Persons

The revised standard rate will affect all Taxable Persons in the Kingdom that make supplies subject to the standard rate, persons who import goods into KSA, and purchasers of goods and services (both Taxable Persons who are entitled to deduct Input Tax incurred, and individual end consumers).

Taxable Persons must charge the 15% rate of VAT on all supplies made on or after 1 July 2020, and may also need to charge VAT at 15% on certain supplies made during the "transitional period" leading up to 1 July 2020. Specific transitional rules have been included within the VAT Implementing Regulations to provide certainty to Taxable Persons on their obligations, to mitigate the risk of non-compliance, and to ensure the revision of the VAT rate is applied fairly.

This Guideline

The General Authority of Zakat and Tax ("GAZT") is the government body tasked with regulating, enforcing, administering, and implementing taxation in the KSA, and is therefore responsible for the administration of the VAT and collecting it based on the revised standard rate of 15%.

One of GAZT's roles is to raise awareness among taxpayers, to provide information for Taxable Persons to understand VAT obligations and to facilitate VAT compliance. As part of these aims, GAZT publishes this guideline with the aim of providing practical information to Taxable Persons on how to manage the implementation of the revised rate and the associated transitional provisions.

This guideline solely serves as guidance material and does not include or purport to include all relevant information or legal provisions in relation to Taxable Person's activities. It is not binding on GAZT or on any Taxable Person in respect of any transaction carried out and it cannot be relied upon in any way.

2. Charging VAT at 15% on Supplies made from 1 July 2020

2.1. Section summary

- Taxable Persons who make supplies subject to the standard rate of VAT will be required to charge Tax at a rate of 15% on all such supplies of goods and services made on or after 1 July 2020
- Tax payable is calculated as 15% of the VAT exclusive value of the goods or services, or can be calculated from the VAT-inclusive Consideration received by applying the VAT fraction: (15/115)
- The pricing of the value of the supplies made after 1 July 2020 is a commercial decision. As such, commercial and contractual arrangements may dictate whether Suppliers can pass the increased Tax amount to Customers. However, all retail pricing must be updated to reflect the Tax inclusive value of the supply
- The revised rate does not affect any supplies of Goods and services which are subject to the zero percent (0%) rate of VAT, or exempt supplies
- Templates for Tax Invoices, including Simplified Tax Invoices, must be updated to reflect the revised rate of Tax
- Where electronic systems are used to calculate the amount of Tax payable on supplies, these should be updated appropriately to reflect the revised rate
- An exceptional relief can be applied to supplies made from 1 July 2020 under specific existing commercial contracts entered into before 11 May 2020, provided that the recipient of the supply is a government authority or entitled to a full deduction of the Tax incurred.

2.2. Calculation of Tax due on Taxable Supplies

In the period up to and including 30 June 2020, VAT is calculated at 5% on most Taxable Supplies made by a Taxable Person, other than specific supplies which qualify for zero-rating (exported goods and services, international transportation, medicines, qualifying medical equipment, and investment metals). Taxable Supplies which do not qualify for zero-rating are commonly called "standard rated" supplies.

From 1 July 2020, Tax is calculated on a standard rated Supply by multiplying the VAT-exclusive value by the revised rate of 15%:

$$\text{Tax Amount} = \text{VAT exclusive value} \times 15\%$$

Alternatively, Tax can be calculated from the total VAT-inclusive amount payable by the Customer. If a Taxable Person receives a single payment in respect of a standard-rated supply, the Consideration received for the supply is deemed to be inclusive of VAT . 1

Taxable Persons can calculate the amount of VAT payable on Consideration received for supplies subject to the revised rate from 1 July 2020 by using the following formula:

$$\text{Tax Amount} = \text{Total Consideration received} \times (15/115) \text{ } ^2$$

Example 1: Repair Co is a VAT registered car mechanic located outside of Riyadh. In August 2020 a Customer requests Repair Co perform some work to fix a small vehicle fault. The Customer states that it can only afford to pay SAR 200 and requested that the work be limited to this amount.

Once Repair Co has examined the car, it agrees to provide the Customer with a discount from its usual hourly rates, and agrees to a fixed fee of SAR 200 for the work, including Tax. The Customer pays SAR 200 in cash.

Repair Co calculates the VAT due on the supply following receipt of the Consideration from the Customer using the following calculation: $200 \times (15/115) = 26.09$. Repair Co includes Output VAT of SAR 26.09 on its VAT return for August. The Tax Invoice issued to the Customer includes these figures:

Services provided	SAR 173.91
VAT at 15%	SAR 26.09
Total Amount Due	SAR 200.00

1 Article 1, Definitions, GCC Unified VAT Agreement

2 Article 45(2), Calculation of Tax, Implementing Regulations. Note that the fraction 3/23 is identical to 15/115 and may also be used to calculate Tax from consideration due

Example 2: Heavy Duty LLC provides equipment for use in the manufacturing sector. In May 2020 it is asked to provide a quote for a range of machines for installation at a client site. It provides a quote of SAR 1,345,000 (excluding VAT) for the supply and installation of the equipment.

In July 2020 the client agrees proceed with the purchase based on the quote provided. The two companies sign a contract, and supply and installation occurs in the next month. Heavy Duty LLC raises its Tax Invoice on completion in August 2020 and calculates the VAT payable by its Customer as 15% of the VAT-exclusive value: $1,345,000 \times 15\% = 201,750$. The Tax Invoice issued to the Customer includes these figures:

Supply and installation of machines	SAR 1,345,000
VAT at 15%	SAR 201,750
Total Amount Due	SAR 1,546,750

Heavy Duty LLC retains the SAR 1,345,000 of revenues and includes SAR 201,750 of VAT payable on the supply in its VAT Return for August.

2.3. Retail sales made from 1 July 2020

Retail cash sales made by Taxable Persons to Customers in store will be subject to the revised 15% rate on supplies made from 1 July 2020 onwards. Please refer to section four of this guideline on the transitional rules for retail sales involving prepayments received and Tax Invoices issued prior to 1 July 2020.

Retail prices displayed in store are required to state the Tax inclusive price of the Supply . If the retailer wishes to pass the cost of the revised rate of Tax to Customers, the retail pricing displayed in store must be changed.

Generally, the Taxable Person is not obliged to increase its prices from 1 July 2020. It is a commercial decision for the Taxable Person as to whether the full value of the revised rate is passed on to Customers. Certain businesses may choose to bear part of the Tax cost as a deduction from the percentage of their realized profits. For example, there may be instances where a Taxable Person views it to be commercially advantageous to absorb some of the cost of the revised Tax rate, with reference to competition with other suppliers. However, in all instances the Taxable Person must calculate the Tax due based on the total VAT-inclusive value of a supply by multiplying the fraction (15/115) by the Consideration received from the Customer on supplies made from 1 July 2020 on retail sales in store.

Example 3: Lunch Club operates a number of cafes and restaurants in Jeddah. It advertises its range of food and beverages, along with prices, on both a board for Customers to select from (for walk in orders) and a menu (for dine in Customers). In accordance with the requirements for VAT, all prices included on both the board and menus are the VAT inclusive final prices to be paid by the Customer.

In advance of the revised rate of Tax of 15%, Lunch Club creates a new board and menu with updated pricing, increasing prices displayed to reflect the revision in Tax rate.

For example, a flat white coffee was stated on the price board as SAR 10 on 30 June 2020. This is made up from a value of supply of SAR 9.53 for the coffee and Tax of SAR 0.47. On 1 July 2020 the prices were updated on both the board and the menus to SAR 11. The value of the supply of the coffee is now at SAR 9.57, with the Tax payable now SAR 1.43.

Example 4: Electronics LLC is a retail electronics outlet based in Dammam, selling products directly to end consumers. At the start of 2020, it sold a large television from its premium range to Customers for a ticket price of SAR 3,700. The ticket price is VAT inclusive, so under the previous 5% rate it is made up from of SAR 3,523.81 as the value of supply for the television and Tax of SAR 176.19.

On announcement of the revised rate of Tax, Electronics LLC reviewed its product pricing for all goods it stocked. It anticipated that demand for the large television model would significantly decrease if the ticket price was over SAR 4,000 as a result of increasing the VAT rate to 15% of the value, but demand would not be impacted where the ticket price was SAR 3,899.

Therefore, it decided on a ticket price for the product of SAR 3,899. This results in a VAT amount payable of SAR 508.57 and the value of the television as net revenue being SAR 3,390.43.

In the retail environment, it is common for an electronic sales system to be used to calculate the Tax due at the point of sale. Where these systems are used to calculate the Tax due, they will need to be updated to reflect the revised rate on all supplies made by Taxable Persons from 1 July 2020. Section six of this guideline discusses the requirement for electronic systems and issue of Tax Invoices

2.4. Special relief for existing commercial contracts (Transitional Period)

Where a commercial contract for the supply of Goods or services subject to the standard rate by a Taxable Person is entered into before 11 May 2020, and the supply is due to occur after 1 July 2020, the Supplier may exceptionally apply the 5% rate to the supply, if all conditions are met:

- The contract was concluded before 11 May 2020; and
- Both the Supplier and Customer are registered for VAT; and
- The Customer is entitled to deduct the Tax charged to it on the supply in full.

The Supplier may charge Tax at a rate of 5% for Consideration received on supplies made to that Customer under the contract, up to the earlier of the end of the contract, renewal of the contract or 30 June 2021. This is an optional relief: the Supplier may choose to apply the revised 15% rate on all such supplies if it prefers.

This relief prevents a Supplier requiring to change the pricing of an existing contract in cases when the Tax will be fully deductible by the recipient in any case. The Supplier must therefore consider the deductibility right of their Customer to determine the correct Tax treatment.

GAZT acknowledges that it might be challenging to obtain confirmation of a Customer's Tax eligibility to deduct. Therefore for the application of this relief, GAZT considers that a Supplier may assume a VAT-registered Customer is eligible to deduct in full, unless:

- The Customer operates in an industry listed in Table One below, where Taxable Persons may be restricted from a full Tax deduction as a result of making exempt supplies; or
- The Supplier is aware that the Customer is unable to deduct Tax charged to it in full.

Table One: Businesses Assumed to not be Eligible for Deduction of VAT

It is GAZT's view that businesses operating in the following areas may not be assumed to be eligible to fully deduct Tax for the purposes of the relief outlined in paragraph (10) of article 79 of the Implementing Regulations and section 2.4 of this guideline:

- Providers of financial services
- Life insurance providers
- Residential rental landlords / providers

GAZT considers that a Taxable Person can rely on its understanding of its Customer's business operations to determine whether its Customer falls within the industry listings in Table One.

The special relief cannot be applied to an existing contract in place with a Customer operating in any of these industries, or in cases where the Supplier is not sure whether the Customer operates in these industries.

As an exception to the previous procedure, the Taxable Supplier may apply the stated relief where the Supplier can obtain a certificate signed by the Customer evidencing that this Customer is entitled to deduct the Input Tax incurred under the contract in full. The intention of this measure is to not impose additional burden on activities performed in sectors which may include exempt supplies.

The Customer can claim the benefit of this relief where it is confident that the supplies received under the contract: will be used exclusively in the making of Taxable Supplies; will not be used in any way in making exempt supplies; and can be attributed to the Customer's Taxable Supplies in a way that can be proven to the Authority in the event the Customer is requested to do so. Submitting an incorrect certificate to the Supplier may expose the Customer to legal penalties, including penalties associated with tax evasion violations.

Example 5: Legal Co enters into an eight month contract to supply legal advice to its Customer Bank Co, in relation to a corporate restructure. Bank Co is registered for VAT. It enters into the contract in April 2020 for services based on a SAR 500 hourly rate, exclusive of VAT. Bank Co requests that Legal Co apply the relief to allow the 5% rate to apply on charges under the contract. Legal Co reviews the transitional provisions and relevant guideline, and determines that although the contract was entered into before 11 May 2020 and both parties are registered, Bank Co is a provider of financial services and as such, it cannot assume Bank Co is eligible to deduct Tax related to the supply as an Input Tax in full. The Bank Co did not provide the Supplier with a signed declaration that it has an entitlement to fully deduct the Tax incurred on the supplies under the contract.

As the conditions to apply the relief are not met, Legal Co issued Tax Invoice to the Bank Co for its services supplied after 1 July 2020 with the revised 15% rate of Tax.

Example 6: Equipment Co enters into a contract to supply machinery for a plastic factory in Jeddah for Manufacturing Co. It enters into the contract in April 2020 for a fixed price of SAR 210,000, inclusive of VAT at 5%. The machinery is scheduled to be delivered to the Customer's site in July 2020, at which time title will transfer, and Equipment Co will issue its Tax Invoice.

As the machinery is due to be delivered in July, which is after the introduction of the revised VAT rate of 15%, the 15% rate should ordinarily apply to the supply.

Based on the transitional provisions related to contracts between Taxable Persons and relevant guidance provided by GAZT, Equipment Co identifies that it can apply the special relief to the contract, on the basis that the following conditions were satisfied: (1) the contract was entered into before 11 May 2020, (2) both parties are registered for VAT, and (3) Manufacturing Co does not participate in any of the listed industries in Table One of the guidance, and does not make tax exempt supplies, and therefore can be assumed to be entitled to fully deduct the Tax charged to it. Equipment Co raises a Tax invoice containing VAT at 5%.

2.5. Relief for existing contracts with Government authorities

A special rule applies in cases where a Taxable Supplier has concluded a contract with a Government authority in KSA before 11 May 2020. For the purposes of this rule GAZT considers that the term "Government authority" includes all forms of state and local government.

This includes:

- (1) The state-wide authorities (executive, judicial and legislative authorities, and government departments or ministries);
- (2) Regional and local government authorities, including municipalities; and
- (3) Other bodies governed by public law which form part of the public administration or carry out the duties empowered and designated by the state. This includes government bodies of all types.

A Government-owned company with separate legal personality does not constitute a Government authority and does not qualify for contract relief under the transitional provisions. However, transitional provisions on contracts between Taxable Persons might be applicable on contracts with a Government-owned company as outlined in section 2.4 of this Guideline.

Contracts with Government entities are often awarded through a unified online Government procurement portal (Etimad), and are typically awarded for a gross contract amount which includes VAT.

The transitional provisions related to the application of the revised Tax rate include a relief from applying the revised rate where the Taxable Supplies relate to a contract which has been concluded with a Government authority before 11 May 2020. The Supplier may apply the 5% rate of VAT on such supplies up to the earlier of the end of the contract, renewal of the contract, or 30 June 2021. This relief may be beneficial for both Supplier and Government authority, by preventing revision of the terms of the awarded contract. It is therefore recommended that Suppliers apply this relief where possible, but a Supplier is not obligated under Tax law to do so.

2.6. Existing Commercial Contracts – applying VAT at 15% rate

If a Supplier has entered into a contract to provide Taxable Supplies, and it determines that these will be subject to Tax at the revised rate, it should determine commercially whether it can pass on the cost of the Tax to its Customer. For example, the contract may document the parties' agreement:

- for the Tax to be passed on in full to the Customer (the price agreed may be VAT exclusive, or the contract may allow a revision for a change in Tax law);
 - for the Taxable Supplier and its Customer to split the cost of increased Tax; or
 - for the Taxable Supplier to absorb the cost of the revised rate (e.g. the price agreed is VAT-inclusive).
- In all instances, the Taxable Person must remit Tax at 15% of the value of all Taxable Supplies with a date of supply on or after 1 July 2020 (subject to the special reliefs and transitional provisions discussed in section four of this guideline in detail).

3. Purchases

3.1. Section summary

- Taxable Persons may deduct Input Tax incurred on Taxable goods and services purchased or imported for the purpose of carrying on its Economic Activity in the course of making Taxable Supplies
- Over the transitional period Taxable Persons may receive both Tax Invoices on which 5% VAT is charged, and on which 15% is charged
- In all instances Input Tax deduction is limited to the amount of Tax stated on the Tax Invoice
- The value of Input Tax deduction claimed on a Simplified Tax Invoice which does not have an amount of Tax stated will depend on the date on which the Simplified Tax Invoice was issued.

3.2. Input Tax deduction

A Taxable Person may deduct Input Tax incurred on the supplies of Goods and services it receives as part of its Economic Activity only where it holds evidence of the transaction and the Tax incurred on such transaction, normally in the form of a Tax Invoice or Simplified Tax Invoice . 4

It is likely that over the transitional period which extends until the end of June 2021, Taxable Persons will receive invoices in respect of purchases showing Tax at the previous rate of 5%, as well as Tax Invoices showing the revised 15% rate. It is therefore important that the Taxable Person has sufficient processes in place to ensure the Input Tax deduction claimed accords:

- (1) to the amount of Tax actually paid on the purchase; and
- (2) to the Tax amount stated on the Tax Invoice received.

This may require accounting systems and procedural changes within the current systems to ensure a Tax compliant process, and may demand additional control measures by Taxable Persons - particularly for Tax Periods adjacent to the implementation date of the revised rate to ensure that the correct amount of Input Tax is deducted in all cases.

GAZT recognizes the practical challenges that Taxable Persons may face in accurately determining the deductible Input Tax amount over the transitional period, and has set out practical guidance and interpretive simplifications in this section.

3.3. Tax Invoices

A Taxable Person might receive Tax Invoices containing either or both of 5% or 15% Tax during the transitional period, depending on the nature of the supplies it receives and contracts concluded.

Where a Taxable Person receives a Tax Invoice in respect of a standard-rated supply on which it is otherwise entitled to claim a deduction of Input Tax, the Taxable Person may deduct up to the value of the Input Tax incurred as stated on the invoice (whether 5% or 15%). The Customer is not required to confirm that the Supplier has charged the correct standard rate of Tax on the supply.

Where a Customer deducts an amount of Tax as Input Tax, and the Supplier subsequently issues a revised Tax Invoice with the correct rate of Tax applied, and raises a credit note or debit note with the difference in Tax due, the Taxable Customer (who deducted the Tax) will be required to adjust its Tax Returns in the usual way to reflect the actual amount of Tax to be deducted.

Section six of this guideline provides further detail on GAZT's approach to corrections and compliance during the transitional period.

Example 7: ABC Co received a Tax Invoice in August 2020 for purchase of standard-rated maintenance services made from XYZ Co in June 2020. The invoice contains Tax at a rate of 5%. ABC has deducted the Tax amount stated in the invoice in its August 2020 Tax Return.

XYZ Co subsequently realised an error meaning that it must calculate the Tax based on the revised rate of 15%, and raise a debit note in November 2020 in respect of the difference of Tax due on the Tax Invoice, and reported such difference by amending the Tax Return for August.

ABC has the right to deduct the Tax difference incurred on the adjusted supply in the current period's Tax Return or any later Tax Return, provided that the deduction amount equals the difference between the correct Tax amount and the Tax amount originally deducted in the earlier Tax Return.

3.4. Simplified Tax Invoices

Simplified Tax Invoices may be issued instead of full Tax Invoices for supplies of Goods or services for a value not exceeding SAR 1,000, or for supplies made to a non-Taxable (natural) Person. GAZT also accepts as a stated practice that Suppliers of consumer goods and services in a retail environment may issue Simplified Tax Invoices, without checking the status of each Customer.

As with full Tax Invoices, there may be a period of time where Taxable Persons receive Simplified Tax Invoices with either the 5% or 15% rate applied, depending on the contract and provisions relating to the supply. Simplified Tax Invoices may present a challenge in respect of Input Tax deduction, as there is no legal provision for the Tax payable to be separately stated on the invoice.⁵ The amount of the Input Tax able to be deducted from such an invoice may not be certain.

If the Tax amount is not separately itemized on the Simplified Tax Invoice, GAZT will apply a standard practice for the purposes of Input Tax deduction.⁶

Specifically, where the Simplified Tax Invoice is issued on or after 1 July 2020 and meets the conditions of a Simplified Tax Invoice listed in the Implementing Regulations of the VAT Law, but does not separately itemize the Tax amount payable on the supply, the Taxable Customer can calculate its Input Tax Deduction in respect of the Simplified Tax Invoice on the basis that the revised 15% rate was charged on the supply, unless the Customer has evidence that the Tax is applied at 5%, or where there is a contract that meets the requirements set out in the relevant transitional provisions. Similarly, for Simplified Tax Invoices issued prior to 1 July 2020 which do not have the Tax amount itemized, the Tax rate should be assumed to be 5% for the purposes of Input Tax Deduction.

⁵ Article 53(8), Tax Invoices, Implementing Regulations. The Simplified Tax Invoice can include a statement that the Consideration is inclusive of Tax, without showing the Tax amount itself.

⁶ Article 49(7), Input Tax Deduction, Implementing Regulations. GAZT exercises its entitlement to discretion from this provision to adopt this standard position.

4. Transitional Rules

4.1. Overview

- VAT law prescribes that the Tax for each supply is usually calculated and becomes due on the earlier of the date of supply, the date the invoice is issued, or the date payment is received
- In the exceptional cases of the implementation of Tax or the revision of Tax rates, a number of rules are established to prevent the misuse of dates relating to the calculation of Tax on a supply where the Tax Invoice is issued before the Tax rate change date, but with the supply being made afterwards. To ensure full compliance by Taxable Persons, a number of transitional rules have been introduced by the Authority to determine the applicable Tax rate, and to enable Taxable Persons to specify the appropriate date for Tax calculation for cases of continuous supplies or for cases of advance invoicing before the effective date of the revised Tax rate.
- A continuous supply which spans the effective date of the revised rate (and for which Tax Invoices are often issued after the supply or at the end of a specific period) should be apportioned between the corresponding value of the supply provided both before and after 1 July 2020; and the appropriate Tax rate must be applied on each separate part of the supply with the correct Tax due shown on the Tax Invoice. Taxable Persons may alternatively elect to charge the revised rate on the full value of the supply in this instance, provided that the Customer approves such treatment.
- If a supply of goods or services is made on or after 1 July 2020 - whether related to a single supply or continuous supply - but an invoice is raised before 1 July 2020, the following will apply:

- o If the supply is invoiced with 5% before 1 July 2020, and the actual date of supply occurs before 30 June 2020, the 5% VAT rate should apply (using the VAT rate from the invoice)
- o If the supply is invoiced with 5% before 11 May 2020, and the actual date of supply occurs between 1 July 2020 and 30 June 2021, the 5% VAT rate should apply (using the VAT rate from the invoice)
- o If the supply is invoiced with 5% on or after 11 May 2020 but the actual date of supply is on or after 1 July 2020, the revised 15% rate must apply (the early invoice is ignored for determining the VAT rate)

4.2. Introduction

The date of supply is the date on which a Tax liability arises, and may determine the Tax Period in which the Tax due is to be reported. However, the general provisions of determining the Tax due date states that where an invoice is issued, or payment is received, in respect of a supply at a date earlier than the actual date of supply, this earlier date becomes that date at which the Tax is due.

Special transitional rules have been introduced⁷ to determine the rate of Tax to be applied in specific circumstances, in order to prevent misuse of the general provisions thus reducing the Tax due on a supply (issuing Tax Invoices before the actual date of supply), or other artificial arrangements to change the rate of Tax applicable over the transitional period. This section provides guidance on these transitional rules.

4.3. Continuous supplies

A continuous supply of Goods or services involves the provision of goods or performance of services continuously across a defined period. It may involve the delivery of specific goods or services on a specific date, but where the Customer obtains benefit of the goods or services over a number of stages or periods – or the contract is for services provided over a long-term period against set milestones.

In particular, the concept of continuous supply of Goods applies to water and energy (including electricity, gas, lighting, heat, and air conditioning). The continuous supply of Goods does not apply to the supply of Goods that are transferred from the Supplier to the Customer such as assets and tangible property.

Examples of continuous supplies include, but are not limited to:

- An operating lease or rental of goods (under a contract which does not provide for the possibility of the ownership of the goods transferring at a later date) e.g. residential lease, warehouse lease, machine lease or car lease)
- The provision of electricity and water by a utility company
- Construction services
- A contract of insurance or takaful
- Management services across a period

⁷ Article 79(10), Transitional Provisions, Implementing Regulations

- Membership of a gym
- Provision of labour to third parties over a specified period
- A contract for periodic maintenance services.

As goods and services are provided continuously across a specific period, the date of a continuous supply of Goods or services for VAT purposes is typically determined as the earlier of the date an invoice is issued or payment is made in respect of those Goods or services, to the extent of the amount invoiced or paid . 8

Where a continuous supply is made partly before 1 July 2020 and partly after that date, the revised rate of Tax applies to the portion of supply made from 1 July 2020 . 9 From a practical perspective, a Supplier may treat continuous supplies spanning 1 July 2020 in the following ways:

- The Supplier should issue a Tax Invoice for continuous supplies provided up to 30 June 2020 and apply the 5% rate to this, and then issue a separate Tax Invoice with the 15% rate for continuous supplies provided from 1 July 2020 . 10 The Supplier should retain records to evidence that the allocation of value of the goods and services provided up to 30 June 2020 is reasonable comparing with the actual value of the supply; or
- The Supplier can raise a single invoice for supplies provided as continuous supplies in the entire relevant period which spans 1 July 2020 and apportion the value of the supplies on the invoice between those which were supplied before 1 July 2020, and those which were supplied on or after, and include both the 5% and 15% rates of Tax on the invoice. Again, the Supplier should retain records to evidence that the allocation of value of the goods and services provided up to 30 June 2020 is reasonable comparing with the actual value of the supply; or
- The Supplier can apply Tax at the revised 15% rate to the entire value of an invoice for a continuous supply spanning 1 July 2020, provided it obtains confirmation from its Customer this is acceptable.

8 Article 20(2), Date of Supply in Specific Circumstances, Implementing Regulations. If instalments are due for a continuous Supply the tax becomes due on each installment due date or earlier payment.

9 Article 79(10), Transitional Provisions, Implementing Regulations

10 It is preferable that separate Tax Invoices are issued, but this is not a formal legal requirement.

Example 8: Consulting Co has a fixed monthly retainer of SAR 15,000 (excluding VAT) with Client Co for the provision of ongoing engineering support. This retainer is a continuous supply of services which is invoiced in arrears to Client Co monthly for services provided up to the 15th day of the month.

In July 2020, Consulting Co raises its invoice to Client Co for the month from 16 June to 15 July 2020. Supplies made during the period 16 June 2020 to 30 June 2020 should be subject to VAT at the rate of 5%, and supplies made during the period 1 July 2020 to 15 July 2020 are subject to VAT at 15%.

As Consulting Co's Customer is registered for VAT and can deduct the VAT it is charged in full, its Customer agrees it can apply VAT at 15% on the full value of the invoice for administrative ease of the Supplier. It raises a Tax Invoice for SAR 15,000, plus VAT of 2,250 at 15%.

Note that the transitional provisions related to the issue of Tax Invoices also apply to continuous supplies. Therefore, where a Tax Invoice for the supply is issued before 11 May 2020 and the supply actually occurs before 30 June 2021, the Supplier can apply VAT at 5% on the full value of the supply until 30 June 2021; there is no requirement to apportion the supply to identify any value of the supply that occurs after 1 July 2020 and apply the revised rate of 15%.

Example 9: Data Co charges its client Technical Co a six-monthly fee in advance for use of its data storage facilities, and issues Tax Invoices on such advance payments at the same date of receiving them.

In April 2020 Data Co raises an invoice to Technical Co in respect of its fee for services of SAR 30,000 (excluding VAT) for the six month period 1 May 2020 to 31 October 2020. The invoice includes a VAT amount of SAR 1,500, calculated at the rate of 5%.

As the Tax Invoice was raised prior to 11 May 2020 and the services will be supplied to the Customer before 30 June 2021, Data Co is not required to amend the invoice, even though a portion of its fee relates to services provided after 1 July 2020.

This exceptional position relates to invoices issued before 11 May 2020 and applies regardless of whether Technical Co has paid the invoice by 1 July 2020 or not.

4.4. Advance invoices issued before the Date of Supply (non-continuous supplies)

Under the general rules for determining the Tax due date, Tax becomes due on the first of:

1. Date of the supply of Goods or services, being
 - o For goods: generally the date on which the Goods are placed at the Customer's disposal.
 - o For services: generally the date on which the performance of the service is completed
2. The date of issuance of the Tax Invoice or
3. The date of upon partial or full receipt of the Consideration, to the extent of received amount . 11

In a transitional sense and for the purpose of applying Tax, the Tax due date is also relevant for working out the appropriate rate of Tax. Given that an early invoice or payment usually brings forward the Tax due date, especially if the supply and payment were made at a later date than the date of issuing the invoice, a special transitional rule is required to prevent misuse during the transitional period through early invoices / payments to apply the 5% rate.

Special transitional rule (1): Invoice issued or payment received between 11 May and 30 June 2020

Where the date of supply of Goods or services occurs on or after 1 July 2020, but a Tax Invoice is issued or consideration is paid in respect of that supply in the period between 11 May and 30 June 2020, the early payment or invoice is ignored for determining the Tax rate applicable. Tax is determined based on the standard rate applicable on the date the supply takes place (in this case 15%).

If a Tax Invoice is issued between these dates, incorrectly showing the 5% rate on a supply taking place on or after 1 July 2020, the Supplier must issue an additional invoice including the difference in Tax due.

Example 10: Salem owns a small bus company in KSA. On 15 June 2020, he issues tickets to travellers for travel taking place in September 2020. He issues Tax Invoices and collects payment on the same day of issuing the tickets, with VAT charged at 5%.

The bus travel will be performed in September 2020 so the VAT rate is 15%, regardless of the early payment received and invoicing. Salem must issue additional invoices to the travellers with the Tax difference, or revised invoice with 15% VAT along with adjusting for the previous invoices of 5%. He may choose to seek payment of the extra 10% VAT from Customers, or absorb the Tax cost himself (and calculate VAT from 15/115 of the total Consideration received).

Special transitional rule (2): Invoice issued before 10 May 2020

Notwithstanding the special transitional rule (1) above, if an invoice is issued before 11 May 2020 with VAT of 5% for a supply taking place on or after 1 July 2020 and before 30 June 2021, the Tax Rate from that original invoice stands. Tax is calculated based on the 5% rate, to the extent of the amount invoiced . 12

If an invoice has only been issued for part of the Consideration due for that supply (for example, an invoice for a deposit received for a supply taking place later) before 11 May 2020, only that part which was invoiced may have Tax applied at the 5% rate. The revised VAT rate must apply on the part of the Consideration that will be received at the actual date of supply.

Example 11: Mohamed visited Luxury Car Co on 27 April to select a new car. The car he wished to purchase was not available and had to be ordered from the manufacturer. He places his order for delivery of the car in September 2020 with an advanced payment of 20% of the price. At the time of the order, Luxury Car Co raises a Tax Invoice in respect of the advanced payment.

As the Tax Invoice for the deposit was issued before 11 May 2020 and the date of supply will occur in September 2020, the rate of 5% Tax was correctly applied on the invoice. There is no requirement to issue an additional Tax Invoice related to the Tax difference of the advanced payment. There is no need for the invoice to be reissued with the revised rate of Tax, even though the car will eventually be delivered in September 2020.

When the car is supplied to Mohamed in September, the remaining amount which was not invoiced before 11 May 2020 (80% of the car value) will be subject to the revised rate of 15% at the time of supply. A separate Tax Invoice must be issued for the 80% value, or a Tax Invoice may be issued for the full value of the car along with a corresponding adjustment for the advance payment and related VAT.

11 Article 23(1), Date of Tax Due on Supplies of Goods and Services, Unified VAT Agreement

12 Article 79(10), Transitional Provisions, Implementing Regulations

5. Specific Transactions

There are certain transactions which have additional rules or complexities when determining the Tax outcome of the transactions over the transitional period. This section provides an indication of GAZT's view of the Tax treatment to be applied to these transactions on the implementation of the revised rate.

5.1. Supply of Real estate

The supply of real estate takes place on the date that ownership is transferred, or on the date the Customer takes possession in the case of an ijara or rent-to-own contract, where ownership is transferred at a later date than the date of assignment of the property by the seller to the buyer. Unless a Tax Invoice was issued for a supply of real estate prior to 11 May 2020 with ownership transfer or possession to be taken before 30 June 2021, the Tax Rate will be determined based on the date of ownership transfer or possession.

An ijara or rent-to-own contract for real estate is not a continuous supply. VAT is applied based on the original date of transfer. If VAT is appropriately charged at 5% on the entry into an ijara (or if VAT was not charged on an ijara entered into before the introduction of VAT on 1 January 2018), no adjustment is made to apply additional VAT to that contract on the introduction of the revised rate of 15%.

Example 12: On 31 May 2020, Mr Amari enters into an ijara arrangement with a real estate developer and financier for a new apartment valued at SAR 950,000, including VAT at the standard rate of 5%. The developer issued a Tax Invoice to the financier with VAT at 5%, and the financier also issued a Tax Invoice to Mr Amari with VAT at 5% and deducted the VAT charged by the developer. (Note: the apartment is not Mr Amari's first home and is not eligible for VAT to be borne by the State under the special relief announced in January 2018 for first homes).

He took legal possession of the apartment on 15 June 2020. As Mr Amari took possession of the apartment on 15 June 2020, before the revised rate took effect, there is no need for either the developer or the financier to adjust the Tax amounts due.

Example 13: Warehousing LLC entered into an agreement to purchase a vacant warehouse on 1 February 2020 from a Landowner LLC, a VAT registered commercial landlord. The purchase price was agreed as SAR 1,200,000 plus VAT. No deposit was paid or Tax Invoice issued until the legal title to the warehouse formally transferred to Warehousing LLC on 15 July 2020. As the date of supply of the real estate is the date on which ownership is transferred, the supply occurred after the revised rate became effective. As such, Landowner LLC raised an invoice for SAR 1,200,000 plus VAT of SAR 180,000 (at a rate of 15% of the selling value).

Example 14: Mr Alqahtani enters into an ijara arrangement on 1 May 2020 for the purchase of a vacant block of land. A Tax Invoice is raised on 9 May 2020 by the financier to Mr Alqahtani for the purchase price of SAR 500,000 plus VAT at 5%. Due to delays in the notarization process, Mr Alqahtani does not take possession of the land until 8 July 2020.

In this case, the date of supply is after the revised rate became effective. However, as a Tax Invoice was raised before 11 May 2020 and the supply occurred in July 2020, the special transitional rule (2) applies and there is no need to adjust Tax for the revised rate.

With regard to Taxable real estate supplied by individuals, the transfer of ownership in the property occurs when the real estate is legally transferred by the competent authority. Possession is not transferred until this legal transfer has taken place. Therefore the basis for calculating the Tax due is the date of legal transfer of the property by the competent authority. If the legal transfer is made before the end of 30 June 2020, that supply is subject to VAT at 5%; if the legal transfer is made on or after 1 July 2020, the Tax due is calculated based on the revised rate of 15%.

5.2. Vouchers

Vouchers are subject to Tax on redemption or use rather than on the date of issuance of the Voucher itself. The issuance or supply of Vouchers is not a supply for VAT purposes. ¹³ Where Vouchers issued prior to 1 July 2020 are redeemed (used) for supplies of Goods and services on or after 1 July 2020 the subsequent supplies will be subject to the revised rate upon redemption (use).

Example 15: A global clothing sales and distribution company issues purchasing vouchers of 200 riyals to its Customers for every purchase exceeding 1,000 riyals. Customers are allowed to use the voucher for the company's products during specific time periods.

During May 2020 the company issued a voucher to a Customer with a value of 200 riyals. The Customer used the voucher on 5 July 2020 to obtain new clothes from the company.

The supply of the voucher is not considered a Taxable Supply, and in this case the voucher is an instrument that is used in exchange for the value of the supplies made with the voucher. Therefore, the clothes acquired by use of the voucher are subject to Tax at the revised rate as the supply was actually made after the effective date of the revised the rate of 15%

Example 16: Telecom Co sells telecommunications pre-paid cards to its Customers and distributors in May 2020, where such Customers and distributors are selling the cards to local stores for onwards sale to end consumers.

The pre-paid cards are Vouchers, so issuing or trading of the cards is not a supply for VAT purposes, and no VAT is accounted for on the supply of the cards by the company or its Customers. Tax is due on the date of activation of the card by the beneficiaries of the telecommunications services. If the Customer activates the card on their mobile phone before the end of June 2020, Tax will be due on the card value at 5%. If the Customer activates the card on their mobile phone on or after 1 July 2020, Tax will be due on the card value at the revised rate of 15%.

¹³ Article 19, Supply of a Voucher, Implementing Regulations,

5.3. Tickets for travel or live (entertainment) performances after 1 July 2020

The sale of advance tickets for domestic travel or for entertainment such as shows or concerts, involves early invoicing or payments for services which are performed on a later date. Travel or events taking place from 1 July 2020 should be subject to the revised 15% rate, unless an invoice was issued before 11 May 2020 with VAT at 5%, and the service was provided (an journey or event performed or scheduled to be held) before 30 June 2021, in which case the VAT charged on that invoice remains 5%.

Example 17: Event Co is staging a music concert outside of Jeddah, to be held on 10 October 2020. Event Co commenced selling tickets online on 1 January 2020 for SAR 150 per person, including VAT. Concert participants are required to pay the full ticket price in advance, and are issued with a Tax Invoice via email on confirmation of payment.

Due to the popularity of the event, the most tickets were sold by 10 May 2020. As a Tax Invoice had been issued to Customers for these tickets, Event Co is not required to revise the VAT amount accounted for following the introduction of the revised rate.

A small number of tickets were purchased after 10 May 2020. Event Co had not updated its pricing on its website, and it decided to retain prices at current levels and absorb the extra Tax cost, and rather than seek to invoice an additional amount to its Customers in respect of the VAT.

Event Co managed to arrange for an additional concert to be held on 11 October, allowing for a release of a further set of tickets. It updated its website on 10 June 2020 to reflect the additional tickets for sale, and an increased ticket price of SAR 165 (including VAT), with this pricing allowing it maintain its original VAT exclusive revenue margin.

	Tickets sold before 11 May 2020	Tickets sold between 11 May and 10 June 2020	Tickets sold after 10 June 2020
Price	SAR 142.86	SAR 135.71	SAR 143.48
VAT	(at 5%) SAR 7.14	(at 15%) SAR 19.56	(at 15%) SAR 21.52
Total	SAR 150.00	SAR 150.00	SAR 165.00

5.4. Sale of rights to goods or services supplied on or after 1 July 2020

Where a Taxable Person supplies the right to receive Goods or services by the Customer after 1 July 2020 at a pre-determined price, the supply of that right is treated in a similar way as a prepayment or advanced invoice for the underlying Goods or services to be supplied. Tax is therefore calculated as if the date of supply takes place on the delivery of underlying goods or performance of underlying services.

Example 18: In June 2020 Travel Co sold the right to a seat on an aircraft from Jeddah to Dammam to a Customer, with the flight scheduled for September 2020. The Customer paid SAR 1,200 for the right in June 2020.

Whilst Travel Co provided the Customer with a contractual right to future travel in June 2020 at a pre-determined price, the underlying supply of travel services occurs in September 2020. Therefore Travel Co is required to account for VAT at the revised rate on the SAR 1,200 received (i.e. VAT of SAR 156.52), or to increase the price to charge the additional Tax to the Customer.

5.5. Reverse charge transactions

For purchases received from Non-resident Suppliers for which the recipient of the supply (the Customer) is obligated to account for the Tax due via the Reverse Charge Mechanism, the transitional rules as set out in section four of this guideline should be used to determine the appropriate rate of Tax to account for on the supply received.

Example 19: Bank Co received legal advice from a UK law firm in the form of an assessment report which was provided on 30 June 2020. It received the associated invoice from the Supplier on 15 July 2020. As the actual date of supply was prior to the effective date of the revised rate, Bank Co was required to account for the VAT in its June Tax return (via the reverse charge mechanism) at a rate of 5% in line with the date of the actual supply of services.

Example 20: Wholesale Co received ongoing technical and management support from its parent company in the US throughout 2020. Charges against these services were made every two months, and the invoice for the period 1 June 2020 to 31 July 2020 was raised on 31 July 2020.

Although the supplies were of a continuous nature, and the July 2020 invoice covered supplies both before and after the effective date of the revised rate, as Wholesale Co did not want the administrative burden of splitting the value of the invoice, it elected to account for Tax via the reverse charge on the full value of the supply at a rate of 15%.

It is important to note that exceptions to the application of transitional provisions for contracts concluded or invoices issued before 11 May 2020 do not apply to supplies from external Suppliers, whether for goods or services, to which the reverse charge mechanism applies, as those supplies do not meet the conditions for the application of exceptions to the application of transitional provisions.

5.6. Imports

Goods imported into the Kingdom through Saudi Customs on or after 1 July 2020 will be subject to the revised rate of VAT at 15%.

For customs purposes, import means any importation transaction for which a customs declaration has been made and whose goods and cargo have been cleared from the customs port (sea, land, or air). If the customs declaration was created before 1 July 2020 with the arrival and clearance of goods and cargo to the port before that date, VAT at 5% will be applied to those shipments even if the cargo was cleared after that date.

Conversely, if a customs declaration was created before 1 July 2020 but the goods and cargo have been cleared from the customs port on or after that date, VAT at the revised rate of 15% will be applied. Likewise, the revised VAT rate of 15% applies to all shipments for which a customs clearance is on or after 1 July 2020.

Saudi Customs will be responsible for collecting the Tax due based on its normal procedures. The Importer will deduct the Tax paid via its Tax Returns in the usual way (if registered and if applicable).

Example 21: Ahmed purchased a book online from the USA on 1 May 2020 for SAR 75 and SAR 10 delivery, with the payment for the book, shipment, and taxes due on a Cash on Delivery basis. Due to delays in shipments from the US during this period, the book did not arrive in KSA until 3 July 2020 and to be cleared after that date. As the actual importation occurred after the effective date of the revised VAT rate, Saudi Customs will calculate the VAT payable at 15% on the customs value of SAR 85. VAT will be SAR 12.75.

Example 22: A company has arranged to import a shipment of raw materials from outside the Kingdom and on 22 June 2020 the company created a customs declaration in advance and paid the Tax and fees due thereon before the shipment arrived. On 27 June 2020 the shipment arrived at Jeddah Port and was cleared after the completion of all customs procedures on 30 June 2020. Saudi Customs will calculate the Tax according to the standard rate of 5%, because the goods have been cleared before the effective date of the revised VAT rate, as the import event has been achieved before the effective date of the revised rate (custom clearance of the goods from the customs port).

5.7. Insurance

Insurers providing cover over a period which spans 1 July 2020 must treat the portion relating to 1 July onwards as subject to the revised 15% rate, unless a Tax Invoice was issued in respect of that portion before 11 May 2020 and the performance of insurance services according to this invoice ends before 30 June 2021.

If an insurer issues a policy subject to VAT to a VAT-registered recipient under an existing contract, it might qualify to apply the 5% rate to the remainder of the contract and until 30 June 2021, if all the conditions of the special relief related to transitional provisions are met. Alternatively, for new contracts the insurer could agree with the Customer to charge 15% VAT on the entire contract.

Example 23: Insurance Co located in KSA provided an annual car insurance contract to its Customer in KSA from 1 January 2020. The premium was payable in advance for the whole one year period and the Customer paid the full amount and a Tax Invoice was issued. On 1 January 2020, VAT at 5% was correctly accounted for, even though Insurance Co provides its Customer with cover throughout 2020. Insurance Co does not need to charge additional Tax on this supply.

Example 24: Insurance Co provides annual building insurance to Bank Co, with the contract entered into on 1 January 2020, with quarterly premiums being paid by Bank Co of SAR 10,000 plus VAT (which is SAR 500 each quarter using the 5% rate). The Bank pays the premiums in advance for each quarter.

The conditions for the special relief related to transitional provisions are not met (as Bank Co cannot deduct Tax incurred in full). On announcement of the revised rate, Bank Co requests Insurance Co that the premium value is discounted to share some of the cost from the revised VAT rate. Insurance Co agrees to a 2% discount on the previously agreed VAT exclusive premium amount. Insurance Co issues invoices for premiums from 1 July 2020 onwards with a premium value of SAR 9800, plus VAT at 15% (SAR 1470).

In cases where the transitional rules for contracts between Taxable Persons does not apply, the exceptional provisions for Tax Invoices issued before 11 May 2020 might apply where the invoice relates to services that will be actually supplied on or after 1 July 2020.

5.8. Coin operated machines

Where the coin operated machine (e.g. vending machines or games machines) records actual date of use, this can be used to apportion between those supplies made before and after 1 July 2020 for the purpose of determining the Tax liability of the supplies.

Where the machine does not record the date of actual use for each supply, the Tax will be determined based on the rate applied at the date of clearance of the machine. Taxable Persons should ensure that sufficient evidence is retained to support the date of clearance for each machine.

5.9. Proportional deduction

Taxable Persons who make partly exempt and partly Taxable Supplies, will need to carry out the required proportional deduction calculations to determine the deduction on non-attributable Input Tax as normal.

The default method for this calculation uses the ratio below. It does not include the amount of Tax charged so is not affected by the revised VAT rate:

$$\frac{\text{The value of Taxable Supplies made by the Taxable Person in the last calendar year}}{\text{The total value of Taxable Supplies and Exempt Supplies made by the Taxable Person during the last calendar year}}$$

The total value of Taxable Supplies and Exempt Supplies made by the Taxable Person during the last calendar year

At the conclusion of the 2020 calendar year, the Taxable Person must make an adjustment to Input Tax in the final Tax Return for that calendar year to reflect the correct proportional deduction based on the actual supplies for the entire year.

These adjustments should be made to reflect actual supplies for the entire 2020 calendar year, notwithstanding the change in the rate of Input Tax incurred. If a Taxable Person believes that the default method, or its alternative method will not accurately reflect the use of goods and services incurred over the 2020 calendar year, the Taxable Person may submit an application to use an alternative method.

5.10. Contracts with government authorities registered for VAT purposes

In certain cases, a Taxable Person may enter into a contract to supply to one of the Government authorities which is engaged in Economic Activity and which is VAT-registered. In such cases, the special provisions for contracts concluded before 11 May 2020 might be applicable for transactions between two registered persons, as well as the special provisions for contracts concluded with a Government authority.

6. Taxpayer obligations

6.1. Overview

There are a number of compliance matters which will need to be urgently addressed by Taxable Persons to ensure compliance with the revised rate of Tax. GAZT has set out in this section a number of these matters, including administrative simplifications which may be applied where relevant.

6.2. Tax Invoices

Taxable Persons must issue Tax Invoices in respect of all Taxable Supplies . ¹⁴ However, the issue of Simplified Tax Invoices permissible for Taxable Supplies to legal persons valued at less than SAR 1,000 or for supplies to non-taxable Persons . ¹⁵ Therefore Tax Invoices issued must reflect the revised rate of Tax in respect of supplies made after 1 July 2020. This includes Tax Invoices which are issued before 1 July 2020.

6.3. Tax Return

In some cases due to the application of transitional rules, Tax charged at 15% might need to be reported in Tax Returns covering periods before 1 July 2020. In other cases, Tax charged at 5% might need to be reported in Tax Returns from 1 July 2020.

¹⁴ Article 53(1), Tax Invoices, Implementing Regulations

¹⁵ Article 53(7), Simplified Tax Invoices, Implementing Regulations

Where a single Tax Return includes Output Tax or Input Tax at both the 5% rate and the revised 15% rate, this may result automatically calculated figures for the net value of supplies being incorrect. In any such cases, the Tax amount must be reported correctly. If necessary, Taxable Persons shall use the Adjustment field in the Tax Return to ensure the Tax amount is correct for each field on the Tax Return.

It is recommended that Taxable Persons retain sufficient evidence to support any adjustments made in its Tax Returns in relation to the Tax rate applied.

6.4. Accounting systems

Taxable Persons will need to review the accounting software used is able to calculate, issue, and process Tax Invoices accurately during the transitional period and beyond, including instances where Tax Invoices may be issued and received showing either the 5% or 15% Tax rates.

GAZT recognises that the time frame for accommodating the revised rate is limited. Where a Taxable Person cannot make full and final changes to its accounting and billing systems prior to 1 July 2020, GAZT acknowledges that temporary arrangements or manual adjustments may be required to account for the correct amount of Tax in the Tax Period before and after the revised rate is introduced. It is recommended that in all instances sufficient evidence is retained to support any manual adjustments made in respect of accounting systems to support the Tax treatment applied to supplies and reported on the Tax Return.

6.5. Cash accounting

The standard method of reporting Output Tax and deductible Input Tax in the Tax Period of the date of supply is described as the 'invoice accounting basis'. An alternative 'cash accounting basis' is available for Taxable Persons with annual Taxable Supplies valued below the threshold of SAR 5,000,000. Taxable Persons can only use the cash accounting basis once approval has been received from GAZT.

The cash accounting basis is an optional simplified method which allows for paying Output VAT and deducting Input VAT after receiving the value of the supply from the Customer or paying the amount only. This is intended to support small businesses with the administrative and cash flow burden of calculating and reporting VAT on the invoice accounting basis.

The cash accounting simplification allows for the approved Taxable Person to account for the Tax liability for on a supply on receipt of payment. It does not affect the date of supply or the rate of Tax chargeable. The date the supply in accordance with the law, and summarized in this guidance, determines the rate of Tax applicable.

Example 25: Grain Co is a small wholesaler registered for the cash accounting scheme. On 15 May 2020 it enters into an agreement to make weekly delivery of boxes of rice to a chain of retail stores through the Eastern Provinces. This agreement is for a fee of SAR 1,500 per weekly shipment. The payment terms are 60 days.

Grain Co makes six deliveries under the contract before 1 July 2020, and a further six deliveries after 1 July 2020. Grain Co receives full payment for all twelve deliveries on 30 July 2020.

As the date of supply for the first six weekly deliveries occurs before the effective date of the revised rate, and after the date of the revised rate for the remaining deliveries, Grain Co will need to account for Output Tax on its third quarter period (July to September 2020) Tax Return at a rate of both 5 % and 15%.

6.6. Credit notes – Cancelling the supply or adjustments to value of supply

A Supplier must issue a credit note to the Customer in cases where the supply is cancelled, goods are returned, or if the value of supply is changed after the issue of a Tax Invoice. The date of supply, and the rate of Tax, for the credit note should match the date of supply in the original Tax Invoice. This applies even in the case where a credit note is issued after 1 July 2020.

Example 26: Sultan purchases a pair of sports shoes from a retailer on 24 June 2020. He is charged SAR 420, including VAT charged at 5% of SAR20.

The shoes are faulty and Sultan returns these to the retailer on 3 July 2020 for a full refund. The retailer must issue a credit note with VAT calculated on the refund at 5%, on the same value calculated in the invoice issued for the supply. The date of the credit note does not affect the rate of Tax.

In the event that the Customer requests to return the supplied goods, and requests that the returned goods be replaced with other goods from the Supplier with the same value or a different value, the Supplier must issue a credit note to the Customer with the value of the returned goods in which the Tax calculated on the goods is recorded at the time of supply, and must issue a new invoice in respect of the new goods provided to the Customer. The VAT rate applicable at the time of supply is applied to the new goods provided; if the return and the new supply are made after 1 July 2020, the Tax is applied according to the revised rate of 15% for the entire value of the new supply.

6.7. Credit notes – adjustments to the rate of Tax

Where an incorrect rate of Tax has been included on a Tax Invoice, in most instances the Taxable Person should provide the Customer with a credit note or debit note with the Tax difference as per the correct VAT rate applicable. A Supplier may issue a credit note to cancel the original invoice provided that the rate of Tax to be used for credit notes is the one which was in force at the time of the original supply. A new Tax Invoice at the correct rate should then be issued in accordance with the requirements of the Implementing Regulations . 16

However, where a Tax Invoice is issued between 11 May 2020 and 30 June 2020 with the 5% rate of Tax applied, but the Tax Invoice is for a supply which occurs on or after 1 July 2020, the Supplier must issue an additional Tax Invoice showing the difference in the Tax due . 17

Example 27: On 31 May 2020 Advanced Consulting issues a Tax Invoice to its Customer Farm Tech, for a three delegates to attend a change management seminar to be held on 23 July 2020. The invoice is for SAR 2,000 plus VAT of SAR 100.

Advanced Consulting later becomes aware that it must charge VAT at 15% on the supply, as the services will be performed on 23 July. It issues a once-off invoice for the additional amount of VAT of SAR 200.

6.8. Correction of error in VAT return

Adjustments to the value of a supply in the current Tax Period are permitted in certain circumstances . 18 Where a Taxable Person makes an error in the rate of Tax stated on a Tax Invoice, this would not normally qualify as for an adjustment in the current Tax Period. As such, Taxable Persons may be required to correct their Tax Returns previously submitted to the Authority in the usual way.

Where a Taxable Person makes an error in respect of the application of Tax on supplies on a submitted Tax Return, it should correct these either through its current Tax Return or via a request for correction of the previously submitted Tax Return to GAZT, depending on the value of the error.

16 Article 54, Credit or Debit Notes, Implementing Regulations

17 Article 79(10), Transitional Provisions, Implementing Regulations

18 Article 40, Adjustments, Implementing Regulations

6.9. Misuse of change of rate provisions

GAZT acknowledges the revised Tax rate brings complexity, and it wishes to work constructively with Taxable Persons to comply with their new obligations and to report the correct amount of Tax. However, GAZT is on alert to identify and take action against any Taxable Persons seeking to misuse the change to the VAT rate and obtaining an unlawful Tax advantage.

GAZT reminds all Persons that any intentional false declaration (such as manipulation of invoice or payment data) or any other intentional violations related to Tax due is likely to be considered tax evasion.

Where evasion is identified, Tax Periods remain open for assessment for 15 years and penalties of up to three times the value of the Goods or services apply.

Appendix: Legal Provisions related to the Revised VAT rate of 15% commencing 1 July 2020 as per the VAT Law and its Implementing Regulations

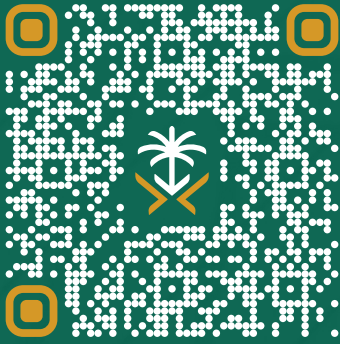
Article 2 - KSA VAT Law

1. Without prejudice to paragraph (2) of this Article, Tax shall be imposed on the import and Supply of Goods and Services in accordance with the provisions stipulated in the Agreement, the Law and the Regulations.
2. Tax shall be applied at a basic rate of 15% on the value of the Supply or import, unless there is a provision for exemption or imposing a zero rate on the same Supply in accordance with the provisions of the Law or Regulations.

Paragraph (10) of Article 79, Transitional provisions, Implementing Regulations

10. For the purposes of applying the second paragraph of the Article Two of the Law, the revised basic rate shall apply in accordance with the following:

- a) If an invoice is issued or Consideration is paid for Goods or services before 1 July 2020, and the Supply of such Goods or services occurs after this date, Tax shall be calculated based on the date of Supply, regardless of the date on which the invoice was issued or consideration was paid. Supplies for which Tax Invoices were issued before 11 May 2020 shall be excluded from this provision to the extent of the value indicated in the invoice, provided that the Supply actually occurs before 30 June 2021. In cases where the Supply results in a difference in the calculated value of Tax due, the Supplier must issue an additional invoice accounting for that difference, unless that Tax was included in the invoice issued before the effective date of the amendment.
- b) With respect to continuous Supplies that are partly carried out both before and after 1 July 2020, the revised rate shall apply to the part carried out after the effective date of the amendment. Continuous Supplies for which Tax Invoices were issued before 11 May 2020 shall be excluded from this provision to the extent of the value indicated in the invoice, provided the Supply actually occurs before 30 June 2021. The Supplier may calculate the Tax based on the revised rate for the total value of the Supply with the consent of the Customer.
- c) The Supplier may treat any Supply of taxable Goods or services under a contract concluded before 11 May 2020 as a Supply subject to the basic rate before amendment. This provision shall apply to all Supplies made under such contract until the date of expiry or renewal of the contract, or 30 June 2021, whichever is earlier, provided that the Supplier and the Customer are both registered as Taxable Persons in the Tax system, and that the Customer is entitled to deduct the full value of Input Tax related to the Goods or Services supplied under the contract.
- d) The Supplier may treat any Supply of taxable Goods or services under a contract concluded with or awarded by a Government authority before 11 May 2020 as a Supply subject to the basic rate before amendment. This provision shall apply to all Supplies made under such contract until the date of expiry or renewal of the contract, or 30 June 2021, whichever is earlier.



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