

Kingdom of Saudi Arabia: Reverse charge mechanism application

In June 2021, Zakat, Tax and Customs Authority (“ZATCA”) issued Circular No. 2106001 which provides the reverse charge mechanism rules applicable to businesses receiving taxable supply of goods or services from a non-resident supplier.



What?

Reverse Charge Mechanism (“RCM”) is the mechanism by which the Taxable Customer of taxable goods or services is obligated to pay the Tax due on behalf of the non-resident supplier.



Who?

A non-resident supplier is a supplier with no place of business or other fixed establishment in KSA.

**Other GCC states are treated similarly as other non-GCC states until the implementation of the Electronic Services System in all Member States.*



When?

Output is reported by the Taxable customer during the Tax Period in which that date of supply falls.

Input VAT is claimed, where appropriate, in the Tax Period where the date of supply falls (*e.g., date the goods or services are received, and the Tax Invoice or relevant documentation is issued to the Taxable Customer*).



How?

- The VAT accounted for under RCM must be entered in field 9 of the VAT return form.
- The VAT return form automatically assumes that input VAT is fully deductible by the customer on the supplies received. Any non recoverable portion of the input must be reported in field 9 (“Adjustment column”) of the VAT return.
- Any imports of goods that have been declared to Saudi Customs must be disregarded as the import VAT on the same is reported separately in field 8.



Not applicable to:

- Receipt of exempt services
- Receipt of goods or services by non-taxable customer from non-resident supplier (In this case, the non-resident supplier will be required to register for VAT in KSA and charge VAT on supplies).
- Services that directly fall under special cases as outlined in the KSA VAT Law.



Documentation

The taxable customer of taxable goods or services is not required to issue a tax invoice to itself in respect of this supply.

However, he should retain the supplier invoice with its business records to support the calculation of VAT under RCM.

Our comments



- This circular is only a reiteration of what is already provided in the VAT Law and Guides.
- Taxpayers must ensure that the rules on RCM application is complied with. Failure to do so could lead to imposition of penalties by ZATCA.
- It is important to note that the VAT Return reporting of the RCM supplies in KSA differs from that of UAE in that the output and input VAT impact of the supply is reported in one field only (Field 9 in KSA) as opposed to UAE (Fields 3 and 10).
- In case of doubt as to the application of RCM, Crowe can help the entities by performing tax health check to assess compliance with the KSA VAT laws.