

Tax alert | GAZT issues transitional provisions

Kingdom of Saudi Arabia | 20 May 2020



The General Authority of Zakat & Tax (GAZT) announced an increase to the standard VAT rate on 11 May 2020, increasing the rate from 5% to 15%, effective 1 July 2020. GAZT has now published a transitional VAT guide, clarifying how VAT will apply to contracts straddling the effective date of the increased VAT rate. Key tax and finance decision makers should carefully consider how these rules apply to current contracts and any contracts signed before 30 June 2020.

Transitional period

The transitional period is from 11 May 2020 (the day GAZT announced the new standard VAT rate) to 30 June 2021 (the day before the new VAT rate comes into effect).

Invoicing

Tax invoices issued before 11 May 2020 (that is, on and before 10 May):

- If the supply of goods or services takes place from 1 July 2020 - the 5% VAT rate applies as long as the supply takes place prior to 30 June 2021.

Tax invoices issued from 11 May 2020 to 30 June 2020:

- If the supply of goods or services takes place prior to 1 July 2020 – the 5% VAT rate applies.
- If the supply of goods or services takes place from 1 July 2020 – the 15% VAT rate applies.

Contracts with VAT-registered customers

Contracts signed before 11 May 2020 (that is, on and before 10 May):

- If the supply of goods or services is to customers that can fully recover input VAT, the 5% VAT rate applies until the earlier of contract expiry, renewal, or 30 June 2021.

Contracts signed from 11 May 2020 onwards:

- If the supply of goods or services takes place prior to 1 July 2020 – the 5% VAT rate applies.
- If the supply of goods or services takes place from 1 July 2020 – the 15% VAT rate applies.

Input VAT recovery

Businesses will need to obtain written confirmation from customers that they can recover input VAT in full.

Invoicing rule ¹ :	Invoice date		
	Before 11 May 2020	11 May 2020- 30 June 2020	After 1 July 2020
Supply: Made and completed before 1 July 2020	5%	5%	5%
Made on or after 1 July 2020 and completed before 30 June 2021	5% ²	15%	15%
Made on or after 1 July 2020 and completed after 30 June 2021	15%	15%	15%

¹Taxpayers invoicing customers now for supplies that will be provided on or after 1 July 2020 will need to carefully consider how to comply with transitional invoicing.

²Provided the full value was invoiced prior to 11 May 2020

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Government contracts

Contracts signed before 11 May 2020 (that is, on and before 10 May):

- If the supply of goods or services takes place from 1 July 2020 – the 5% VAT rate applies until the earlier of contract expiry, renewal, or 30 June 2021.

Contracts signed from 11 May 2020 onwards:

- If the supply of goods or services takes place prior to 1 July 2020 – the 5% VAT rate applies.
- If the supply of goods or services takes place from 1 July 2020 – the 15% VAT rate applies.

Impact on existing VAT rules

The rate change does not impact zero-rated provisions or existing VAT rules. It is only the standard VAT rate that has changed.

Contracts with non-taxable customers

GAZT's guidance does not specify rules for transitional B2C transactions. As such, the rules for invoices should - in the absence of further guidance - be applied.

Some practical examples from the GAZT guide

A cleaning company enters into a five year cleaning and maintenance services contract prior to 11 May 2020:

- Standard VAT rate of 5% applies until 30 June 2021 (unless the contract expires or is renewed before then).
- From 1 July 2021, VAT is chargeable at 15%.

A contract to supply raw materials is entered into for two years after 11 May 2020. Some of the goods are supplied during June 2020. The remaining goods are supplied from 1 July 2020:

- VAT at 5% applies on supplies made on or before 30 June 2020.
- Goods supplied from 1 July 2020 are subject to VAT at 15%.

A person buys a medical insurance policy for one year on 1 May 2020. The contract requires monthly instalments with a tax invoice issued every month:

- Services performed from 1 May 2020 to 30 June 2020 are subject to VAT at 5%.
- Any services performed from 1 July 2020 - for which invoices are issued on or after 1 July 2020 - are subject to VAT at 15%.

This GAZT-provided example on B2C supplies demonstrates that taxpayers supplying to non-registered customers should carefully consider the implications of the transitional rules as billing terms may also impact the chargeable VAT rate.

To discuss the transitional arrangements or any of the points raised in this alert, please speak to a member of the Keypoint tax team.

Disclaimer: This tax alert is based on an unofficial translation of GAZT's transitional arrangements released in Arabic on 20 May 2020 and is for general information. Seek professional advice in relation to your particular circumstances.