

Tax alert | GAZT updates transitional guidelines

Kingdom of Saudi Arabia | 30 June 2020



The General Authority of Zakat & Tax (GAZT) has updated (in Arabic) its transitional rules for the new 15% standard VAT rate effective 1 July 2020. While most of the guidelines remain the same, key updates include:

Fully taxable customers

If the contract rule's conditions are satisfied, suppliers can charge 5% on consideration received in relation to supplies made under a contract until the earlier of contract renewal, expiry or 30 June 2021. This rule is optional - a supplier may opt to charge the higher rate (15%).

The transitional rules don't apply if:

1. The customer is engaged in an exempt business activity listed in Article 79 (10) of the implementing regulations (that is, financial services, provision of life insurance and the leasing of residential real estate)
2. The supplier knows that the customer is unable to fully recover input tax on the supplies

As an exception, a supplier may apply the contract rule even if the customer engages in an exempt business activity if the supplier receives a written, signed confirmation that the customer can fully recover any input tax. This prevents any VAT burden on mixed suppliers who use the grandfathering provision for supplies that are purchased solely to make taxable supplies.

Input tax deduction

It is expected that businesses will receive tax invoices carrying VAT at 5% and 15% during the transitional period. Input tax can be claimed to the extent shown on tax invoices.

Simplified tax invoices

Where a customer receives a simplified tax invoice which does not mention the VAT amount (that is, the amount payable is inclusive of VAT) and the customer cannot show which tax rate was applied, input tax can be recovered by referring to the invoice's issue date (5% if issued before 1 July 2020, 15% if issued on or after 1 July 2020).

Supplies of real estate

VAT will apply according to the date of transfer of ownership or physical possession. If transfer occurs before 1 July 2020, VAT applies at 5%. If the transfer on or after 1 July 2020, VAT applies at 15%. This also applies to supplies under *ijarah* or lease-to-own contracts as these are not considered a continuous supply.

Vouchers

Vouchers are subject to VAT at the time of redemption. If a voucher is issued before 1 July 2020 but redeemed after 1 July 2020, any supplies made in exchange for the voucher are subject to VAT at 15%.

Travel or entertainment tickets

Advance payments and invoices usually trigger a time of supply for domestic travel tickets or entertainment events while the actual services are provided later. If a supply is made after 1 July 2020, VAT applies at 15% - unless a tax invoice was issued prior to 11 May 2020 and the services are provided before 30 June 2021.



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Right to goods or services supplied on or after 1 July 2020

If a supplier enters a forward contract giving a customer the right to receive goods or services after 1 July 2020 at an agreed price, VAT will be charged on the date of supply stipulated in the agreement - like advance payments or invoices issued in advance for services or goods to be delivered at a later date

Reverse charge mechanism (RCM)

The guidelines state that the transitional rules do not apply to imported services and gives two examples:

1. A bank receives legal advice - an evaluation report - from a law firm in the UK on 30 June 2020. An invoice for the services is received on 15 July 2020. As the service was supplied before 1 July 2020, the bank should report the transaction in its June VAT return at the rate of 5%.
2. A wholesaler receives technical and administration support from its US-based parent throughout 2020, paying every two months. An invoice was issued on 31 July 2020 for services performed between 1 June 2020 and 31 July 2020. As the services are continuous and some services were received before 1 July 2020, the company can either split the invoice and apportion the input VAT accordingly or minimise its administrative burden by accounting for VAT by way of the reverse charge mechanism on the full invoice at 15%.

Insurance

Insurance coverage after 1 July 2020 on a policy incepted before 1 July 2020 is proportionally subject to VAT at 15% unless an invoice was issued before 11 May 2020 and the services expire on or before 30 June 2021.

Coin-operated vending machines

Where supplies are made through a machine using coins, the applicable rate depends on the date of use. Any supplies after 1 July 2020 are subject to VAT at 15%. Where the date is not recorded for each sale, the applicable rate is determined by when a machine is emptied. Taxable persons must retain sufficient evidence to record that date.

VAT returns

During the transitional period, input and output VAT returns may contain transactions subject to VAT at both 5% and 15%. Automatically calculated amounts in the tax return template may be incorrect. Taxpayers should use the adjustment column in their VAT return to adjust reported net values so the correct amount of VAT is paid. This may be challenging where there are sales or purchases to report at both 5% and 15%. Taxpayers must keep evidence to prove any adjustments are accurate.

Disclaimer: This tax alert is based on an unofficial translation of updated guidelines issued by the General Authority of Zakat & Tax (GAZT) and is for general information. Seek professional advice in relation to your particular circumstances.