

البعثة الدائمة للمملكة العربية السعودية  
لدى منظمة التجارة العالمية  
PERMANENT MISSION OF THE  
KINGDOM OF SAUDI ARABIA TO  
THE WORLD TRADE  
ORGANIZATION



Internal non-discriminatory taxes (GST/VAT) on electronic transmissions – sharing experiences session

DIGITAL ECONOMY: VALUE ADDED TAX (VAT)  
SYSTEM IN THE KINGDOM OF SAUDI ARABIA

5 July 2021



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## Introduction

- Expansion of types and nature of digital transactions.
- The taxation of digital transactions in a cross-border context presents several challenges related to the right to tax and the allocation of profits between countries
- Efforts of International Organizations to define digital transactions challenges and develop an international consensus on the best approach to address them.
- Products and services are uploaded, downloaded and used digitally without any product or person physically crossing international borders.
- Significant profits often are generated from sources within countries without establishing a physical presence in those countries.
- Recently, various countries began to unilaterally enact measures on taxation of digital activities.



## VAT on Digital Transactions : Law and Regulations in Saudi Arabia

- A common VAT agreement governs the implementation of VAT in the Gulf Cooperation Council (GCC) countries in 2015.
- Together with the finalized GCC Agreement, the Saudi VAT law and VAT regulations form the formal legal framework for the introduction of VAT across all sectors since 1 January 2018.
- VAT rate applied to Taxable Supplies and Imports in the Kingdom is 15%.
- The General Authority of Zakat and Tax - recently became the Zakat, Tax and Customs Authority **ZTCA**- released **guidelines about value added tax (VAT) registration and payment for online and e-commerce transactions** and activities on 2 March 2021. ([gazit.gov.sa](http://gazit.gov.sa))
- The VAT registration portal for all businesses eligible to register is now available through the online tax administration platform.



## Definitions of Key Terms

**Digital Economy** means Economic Activities carried out through an electronic means, where:

- Goods or services are purchased through a website or electronic platform, or
- Services are provided over an electronic or digital medium

**Electronic Services:** are defined as “wired and wireless telecommunication services and electronic services”.

Non-exhaustive List of services that fall within the definition of this term:

- a) Any service relating to the transmission, emission or reception of signals, writing, images and sounds or information of any nature by wire, radio, optical or other electromagnetic systems.
- b) The transfer or assignment of the right to use capacity for such transmission, emission or reception.
- c) The provision of audio and audio-visual content for listening or viewing by the general public on the basis of a program schedule by a person that has editorial responsibility.
- d) Live streaming via the internet.
- e) Supplies of images or text provided electronically, such as photos, screensavers, electronic books, Online magazines, music, films, games, and applications.
- f) Distance maintenance of programs and equipment.
- g) Supplies of software and software updates.
- h) Advertising space on a website and any rights associated with such advertising

**Business-to-Business**, or B2B, is a term used to refer to supplies from a VAT-registered person to another VAT registered person.

**Business-to-Consumer**, or B2C, is a term used to refer to supplies from a VAT registered person to an individual or non-VAT registered organization

**Tax agent** acts on behalf of a business with the local tax authority to file returns, submit documentation, engage in communications etc .

**Tax representative** performs all the roles of a tax agent, and also generally makes and receives payments and arranges for the retention of documentation.



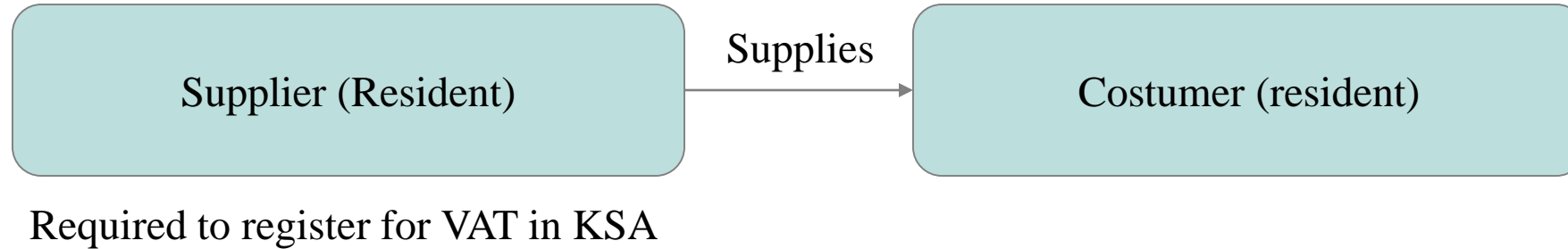
## VAT Registration requirements

- Natural persons and bodies corporate that carry on an economic activities must register for VAT if it performs during a 12-month period taxable supplies or imports that exceed the mandatory registration threshold of SAR375,000 (U.S. \$ 100,000). VAT registration is optional if yearly sales fall between SAR 187,500 and SAR 375,000.
- Registration is to be granted by the **ZTCA** within two business days. Once a VAT certificate is acquired, online enterprises must display it on their platforms. After registration, the enterprise will be required to file the VAT returns by means of the **ZTCA** portal.
- Such persons must also collect the VAT due on the supplies they make as part of their Economic Activity, and remit the tax levied to the Authority
- In many cases, **the rules relating to the place of supply are determined based on the supplier or the customer's place of residence.**



# VAT Mandatory Registration

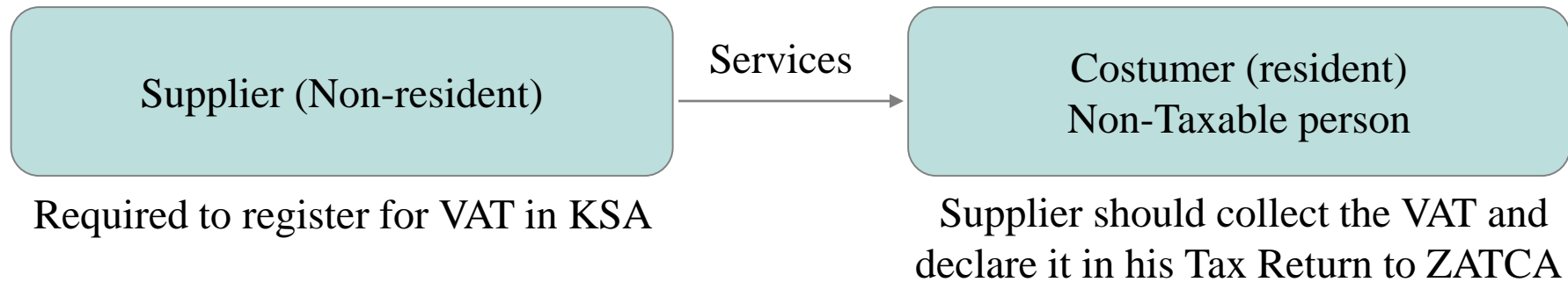
**1) Resident Suppliers** who meet the statutory requirements regarding registration must register for VAT



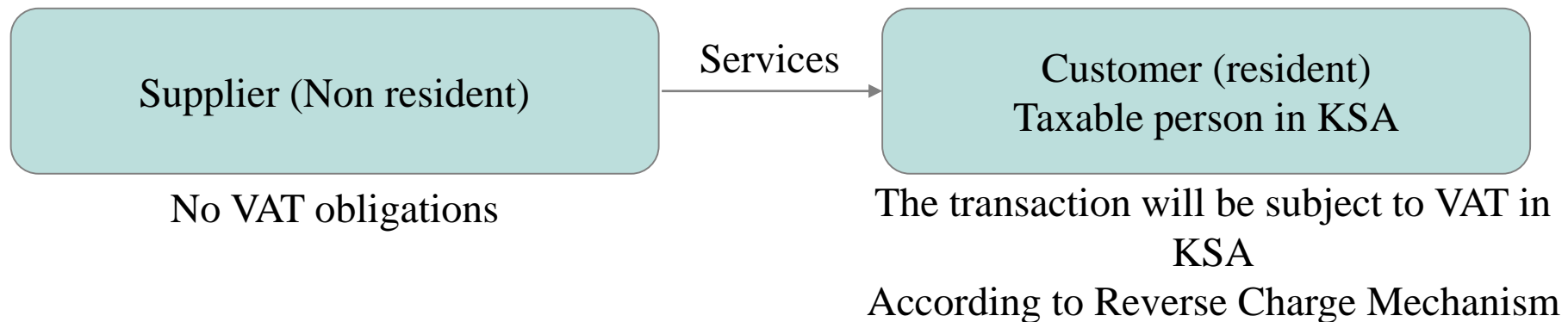


# VAT Mandatory Registration

## 2) Non-Resident Suppliers (B2C)



- **Non-resident suppliers make supplies to VAT registered customers (B2B)**

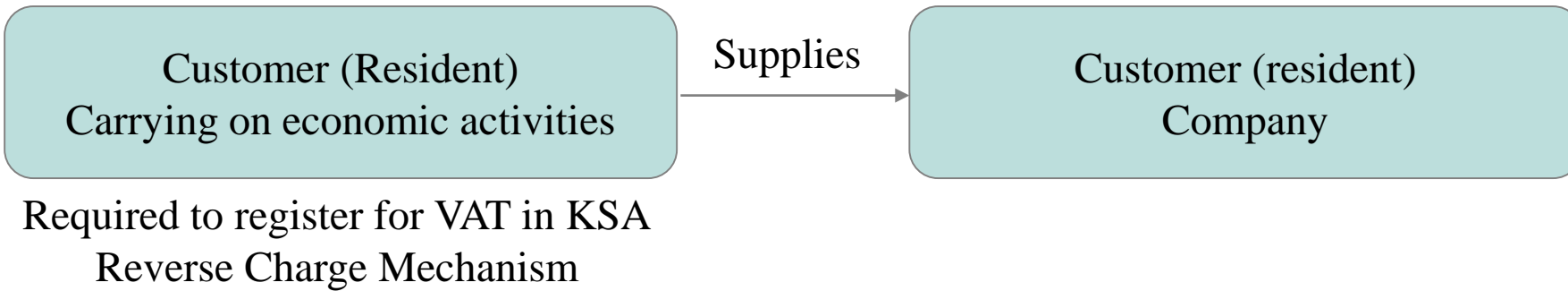






## VAT Mandatory Registration

**3) Resident Customers** who carry on an Economic Activity may exceed the mandatory registration threshold based on the value of goods or services received from non-KSA suppliers.





## VAT on Imported Goods

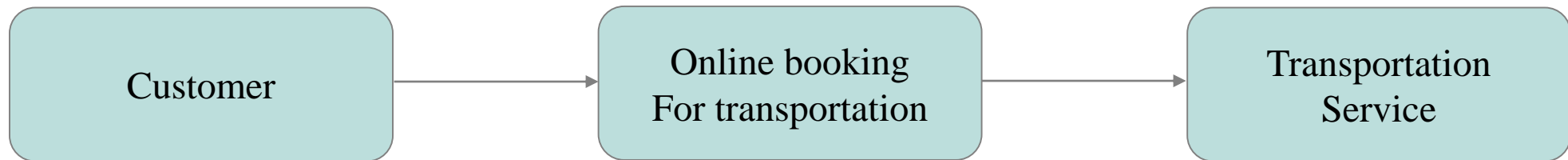
- VAT payable on the import of goods must be paid at Customs by the importer (often a shipping company licensed to practice that activity in the Kingdom), together with the duty and other charges indicated on the customs declaration, to facilitate the release of goods for free circulation in the Kingdom.
- The supply of goods made before the formal import clearance into KSA is not a supply subject to VAT.
- The supply of goods made after the formal import clearance into the KSA, when goods are situated in KSA, is generally a supply which takes place in the KSA and is subject to VAT.
- Any imports of goods not exempt from Import VAT in accordance to Article 39 of The Unified VAT Agreement of the States of the Gulf Cooperation Council is subject to Tax.
- Shipments less than 1000 SR are known to be exempted from import VAT (in accordance to the Unified Customs Law).



## Application of VAT to Electronic Services

- Special rules apply to determine the place of supply of Electronic Services.
- VAT applies in the country in which the services are actually used or benefited from.

**Services requested, booked or coordinated through electronic means** are subject to place of supply rules based on the place where the underlying service is provided.



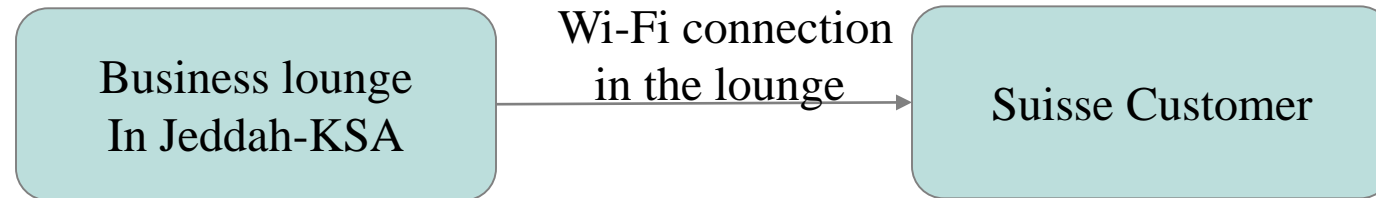
VAT applies to the supply of transportation services based on the country where the transport begins



## Application of VAT to Electronic Services

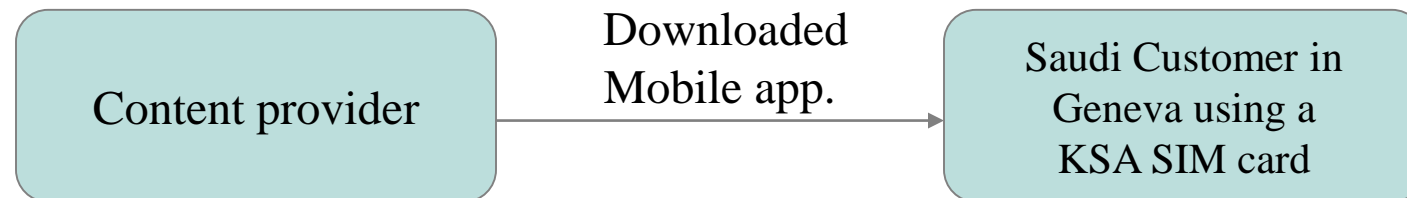
### Determining place of actual use and benefit

1) Services provided in a specific physical location in order to receive the service.



**The place of actual use of the service is in the KSA**, regardless of the customer's residence or VAT registration status.

2) Services not provided in a specific location.



The customer's usual place of residence is deemed the place of actual use. Accordingly, the place of usual residence is the place of supply of the services.



# VAT Reporting

## Issuing invoices

- A taxable supplier must issue a tax invoice for each taxable supply made to any other VAT-registered person or to any other non-taxable legal person .
- In all events invoices must be issued no later than 15 days following the end of the month in which the supply is made.
- The tax invoice must clearly detail information such as, the invoice date, date of supply if it's different than the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged.

## Filing VAT returns

- Each VAT-registered person or persons authorized to act on their behalf must file a VAT return with ZATCA for each monthly or quarterly tax period (as applicable).
- The VAT return is considered the taxable person's self-assessment of tax due for that period.
- Monthly VAT periods are mandatory for businesses with an annual turnover exceeding SAR 40 million.
- For all other VAT registered persons, the standard tax period is three months.
- The VAT return must be filed, and the corresponding payment of net tax due made, no later than the last day of the month following the end of the tax period to which the VAT return relates.



# VAT Reporting

## **KEEPING RECORDS**

- All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable on a transaction and in a VAT return. This will generally include:
  - Tax invoices issued and received;
  - Books and accounting documents;
  - Contracts or agreements for large sales and purchases;
  - Bank statements and other financial records;
  - Import, export and shipment documents; and
  - Other records relating to the calculation of VAT Records may be kept in physical copy, or electronically where the conditions specified in Regulations are met to do so.
- All records must be kept for at least the standard retention period of 6 years. The minimum retention period is extended to 11 years in connection with invoices and records relating to movable capital assets, and 15 years in connection with invoices and records relating to non-movable capital assets.

**Thank You**  
**For more information please visit**  
**<https://gazt.gov.sa/>**