



Transitional Provisions Guidelines of VAT Rate Increase to 15%

Effective 1 July 2020



This guide is interactive and
contains useful links



Important Clarifications



How to deal with contracts signed prior and post VAT rate increase to 15%?



In brief, how to deal with signed contracts



Examples



How to deal with tax invoices issued prior and post to VAT rate increase to 15%?



In brief, how to deal with tax invoices issued



Examples



Common terms



Click on desired section for fast redirection



Important Clarifications

Effective date of
VAT rate increase to
15%



1 July 2020

Decree issuance
date (Effective
date of transitional
measures)



11 May 2020

End date of
transitional
measures



30 June 2021

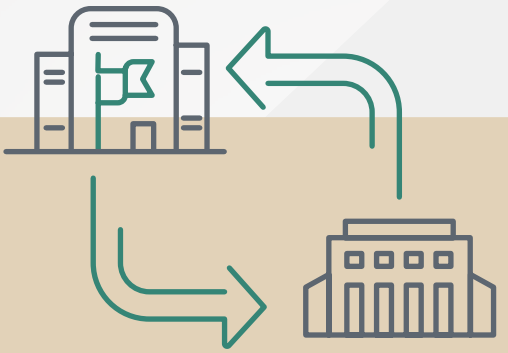
Continuous
supplies



Supplies that
partially executed
before 1 July 2020,
and partially
executed on or
after 1 July 2020



How to deal with signed contracts prior and post to VAT rate increase to 15%?



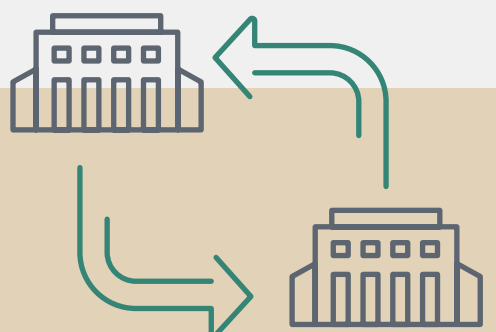
Between a VAT registered business and governmental body

For contracts signed before 11 May 2020

If the contract has been signed before 11 May 2020 and the supply will continue on or after 1 July 2020, a 5% VAT will be applicable to the supplies related to that contract till the end date of the contract, contract renewal date or 30 June 2021, whichever comes first.

For contracts signed between 11 May 2020 and 30 June 2020

If the contract has been signed in or after 11 May 2020 and before 1 July 2020, a 5% VAT rate will be applicable to the supplies actually provided on or before 30 June 2020, and 15% VAT will be applied on supplies actually provided on or after 1 July 2020.



Between two VAT registered business

Contract signed before 11 May 2020

If the contract has been signed before 11 May 2020 and the supply will continue after 1 July 2020, a 5% VAT will be applicable to the supplies related to that contract till the end date of the contract or contract renewal date or 30 June 2021, whichever comes first.

For contracts signed between 11 May 2020 and 30 June 2020

If the contract has been signed in or after 11 May 2020 and before 1 July 2020, a 5% VAT rate will be applicable to the supplies actually provided in that contract on or before 30 June 2020, and 15% VAT will be applied on supplies actually provided on or after 1 July 2020.

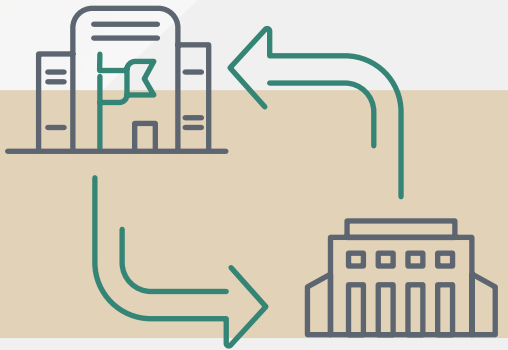


Contracts

* "11 May 2020 is the date in which the VAT rate increase to 15% has been announced"



How to deal with signed contracts prior and post to VAT rate increase to 15%?



Between a VAT registered business and governmental body

Contracting prior to 11 May 2020

If the contract has been signed before 11 May 2020 and the supply will continue on or after 1 July 2020, a 5% VAT will be applicable to the supplies related to that contract till the end date of the contract, contract renewal date or 30 June 2021, whichever comes first

Example

On 15 January 2020, a company signed a contract with a government entity to supply computers with a value of 500k plus 5% VAT of 25k, the computers will be supplied in a phased manner, the last phase will be ended August 2020.

The VAT rate applicable to that supply is 5% as the contract is a B2G contract signed before 11 May 2020.

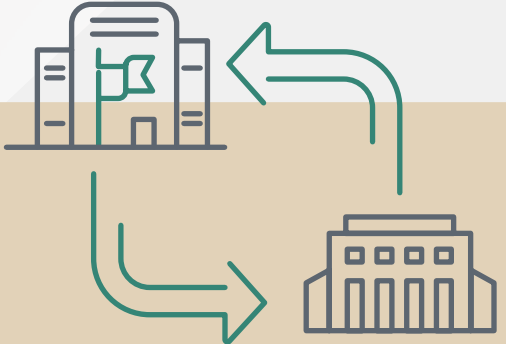


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How to deal with signed contracts prior and post to VAT rate increase to 15%?



Between a VAT registered business and governmental body

Contracting prior to 11 May 2020

If the contract has been signed before 11 May 2020 and the supply will continue on or after 1 July 2020, a 5% VAT will be applicable to the supplies related to that contract till the end date of the contract, contract renewal date or 30 June 2021, whichever comes first.

Example

A company has signed a contract with a government entity to provide office supplies with a value of 50k plus 5% VAT of 2.5k, and the offices supplies will be provided on 15 June 2020

The supply will be subject to 5% VAT rate as the supply has been actually provided before 1 July 2020

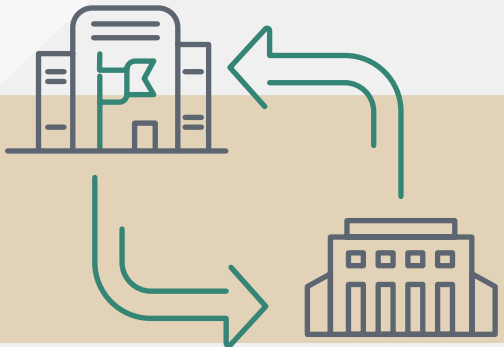


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How to deal with signed contracts prior and post to VAT rate increase to 15%?



Between a VAT registered business and governmental body

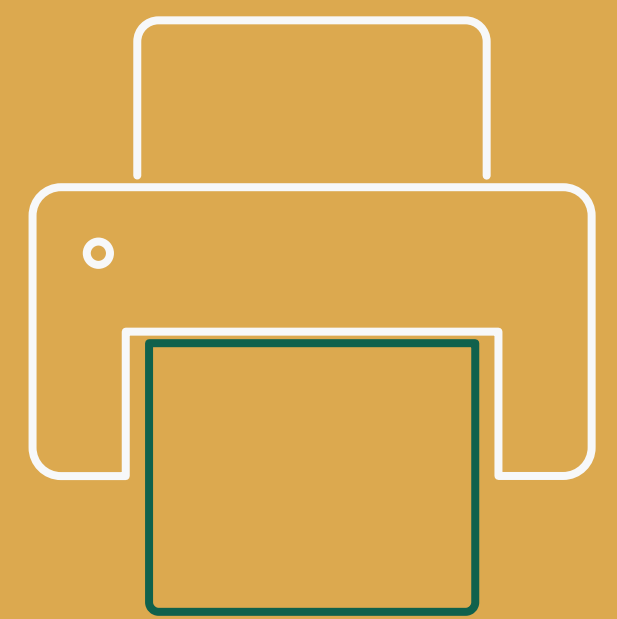
Contracting between *11 May 2020 and 30 June 2020

5% VAT applies in case supplies physically occurred prior to 1 July 2020, 15% VAT applies in case supplies physically occurred on or after 1 July 2020.

Example

On 17 May 2020, a company has signed a contract with a government entity to supply office printers with a value of 150k plus 5% VAT of 7.5k, the offices printers will be supplied on September 2020.

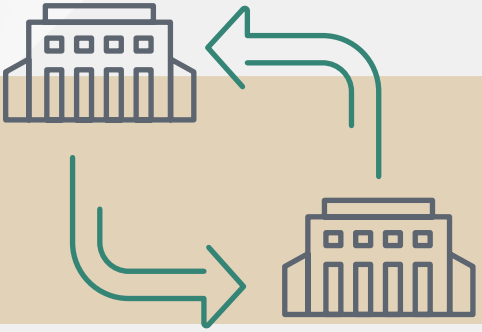
This supply will be subject to 15% VAT rate (22.5k) as the contract signing date is on or after 11 May 2020 and the actual supply will be on or after 1 July 2020.



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How to deal with signed contracts prior and post to VAT rate increase to 15%?



Between two VAT registered business

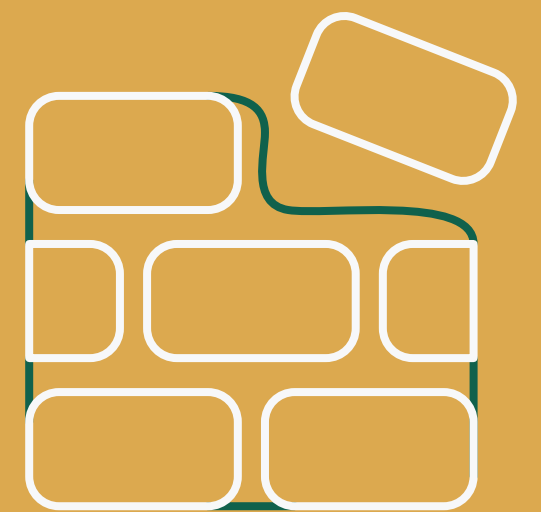
Contracting prior to 11 May 2020

If the contract has been signed before 11 May 2020 and the supply will continue on or after 1 July 2020, a 5% VAT will be applicable to the supplies related to that contract till the end date of the contract, contract renewal date or 30 June 2021, whichever comes first.

Example

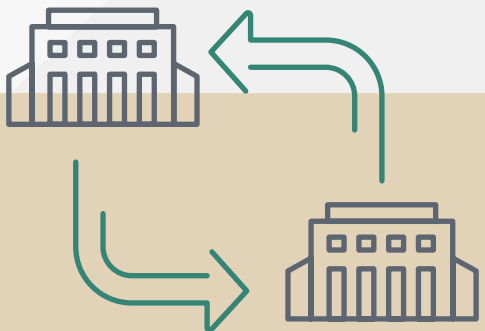
On February 2020, a one year contract has been signed between two VAT registered businesses to supply construction materials, with a value of SAR 300k plus a 5% VAT of SAR 15k, the supply will be in a phased manner along the contract period.

This supply will be subject to 5% VAT rate till the contract end, or renewal date whichever comes first



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How to deal with signed contracts prior and post to VAT rate increase to 15%?



Between two VAT registered business

Contracting prior to 11 May 2020

If the contract has been signed before 11 May 2020 and the supply will continue on or after 1 July 2020, a 5% VAT will be applicable to the supplies related to that contract till the end date of the contract, contract renewal date or 30 June 2021, whichever comes first.

Example

On 20 May 2020, a two years contract has been signed between two VAT registered businesses to supply raw materials, the contract value of SAR 180k plus a 5% VAT of SAR 9k, the supply will be provided in a phased manner along the contract period.

The supplies done before end of June 2020 will be subject to 5% VAT, and 15% VAT (SAR 21k) will be applicable to supplies provided starting from 1 July 2020.



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How to deal with tax invoices issued prior and post to VAT rate increase to 15%?

Tax invoices issued prior to 11 May 2020*

If the invoice has been issued before 11 May 2020 and the supply in relation to that invoice has been done on or after 1 July 2020, a 5% VAT rate will be applicable on that supply with a condition that the actual supply is done before 30 June 2021.

Tax invoices issued between 11 May 2020 and 30 June 2020*

If the tax invoice has been issued in the period between 11 May 2020 and 30 June 2020, a 5% VAT will be applicable to that supply provided that the actual supply should be happened before 30 June 2020, all supplies on or after 1 July 2020 will be subject to 15% VAT rate



Invoices

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How to deal with tax invoices issued prior and post to VAT rate increase to 15%?

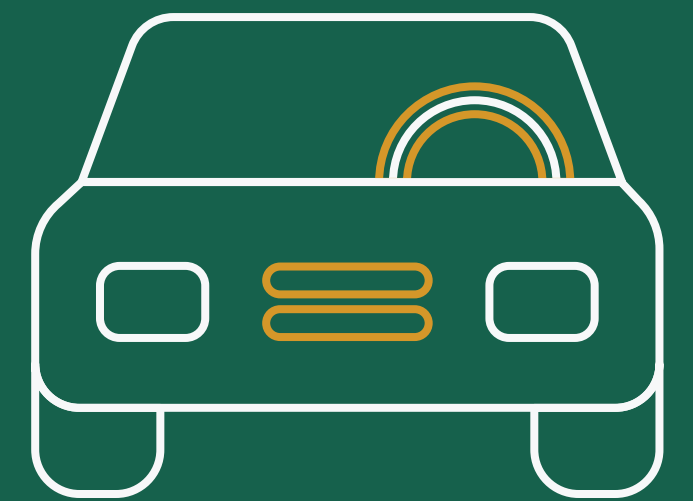
Tax invoices issued before 11 May 2020

If the invoice has been issued before 11 May 2020 and the supply in relation to that invoice has been done on or after 1 July 2020, a 5% VAT rate will be applicable on that supply provided that the actual supply is done before 30 June 2021.

Example

A car has been bought in March 2020 with a value of SAR 80k plus 4k 5% VAT, an invoice has been issued on the same date with a full value, with a condition that the car will be delivered on August 2020.

A 5% VAT rate will be applicable to that supply as the invoice has been issued before 11 May 2020.



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Value Added Tax (VAT)

How to deal with tax invoices issued prior and post to VAT rate increase to 15%?

Tax invoices issued before 11 May 2020

If a tax invoice issued prior to 11 May 2020 and concerned supply occurred on or after 1 July 2020, a 5% VAT applies to the supplies, given that the concerned supply completed prior to 30 June 2021.

Example

On 15 April 2020, a maintenance company signed a 5 years home maintenance contract with a customer, an invoice has been issued on the contract date with the full amount of the contract plus 5% VAT.

So if an invoice has been issued in the contract date with the full value of the supply plus 5% VAT, the value of the services provided to the customer from 15 April 2020 to 30 June 2021 will be subject to 5% VAT rate, and any services provided starting from 1 July 2021 will be subject to 15% VAT. and the supplier should issue an invoice with the tax difference.



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How to deal with tax invoices issued prior and post to VAT rate increase to 15%?

Periodic tax invoices issued for continuous supplies

If a tax invoice issued for a continuous supplies partially executed before and on or after 1st of July, a 5% VAT rate will be applicable to the invoice related to the part executed before 1 July 2020 and a 15% VAT rate will be applicable to the invoice related to the part executed on or after 1 July 2020.

Example

On 1 May 2020 an individual signed a health care insurance policy with a health insurance company, based on the the agreement the customer will pay the due amount on a monthly basis and a separate monthly invoice will be issued for the monthly insurance services provided.

The insurance services provided to the customer during the period of 1 May 2020 to 30 June 2020 will be subject to 5% VAT rate, and starting from 1 July 2020 the insurance services provided will be subject to 15%, and all invoices related to the services rendered starting from 1st of July 2020 should include new VAT rate 15%.



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Value-Added Tax

How to deal with tax invoices issued prior and post to VAT rate increase to 15%?

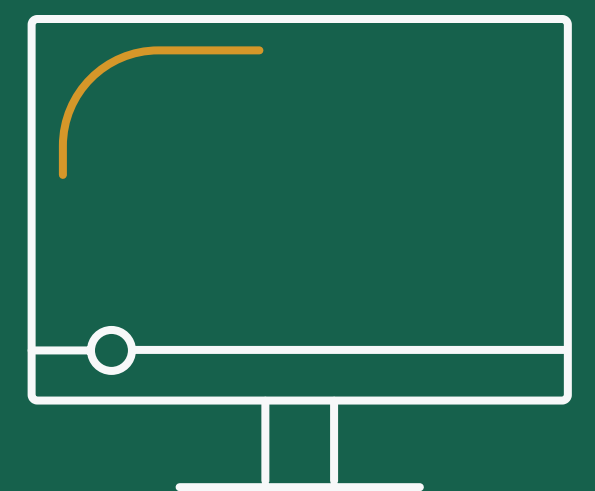
Tax Invoices issued from 11 May 2020 *, to 30 June 2020

If a tax invoice has been issued from 11 May 2020 to 30 June 2020, the applicable VAT rate will be 5% if the actual supply has been provided before the end of 30 June 2020, and VAT rate of 15% will be applicable if the actual supply provided on or after 1 July 2020.

Example

On 20 May 2020 a Tablet has been purchased for SAR 3000 plus SAR 150 (5% VAT), a tax invoice has been issued on the same date and the tablet will be delivered to the customer on 15 June 2020.

The transaction will be subject to 5% VAT rate, as the supply (the tablet delivery) occurred before 1 July 2020.



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How to deal with tax invoices issued prior and post to VAT rate increase to 15%?

Tax invoices issued prior to 11 May 2020*

In case tax invoiced prior to 11 May 2020 and concerned supply occurred on or after 1 July 2020, a 5% VAT applies to the supplies, given that the concerned supply completed prior to 30 June 2021.

Example

A person purchased a vehicle through a local auto agency and accordingly received an invoice dated 5 May 2020. The buyer paid the total value of the vehicle but the seller will not deliver the vehicle before 1 July 2020 as the car will arrive to KSA after 1 July 2020.

- 1 In case the auto agency issue the tax invoice pertaining to payment of the vehicle's total value, and accordingly handed the invoice to the buyer prior to 11 May 2020, 5% VAT applies to the transaction if the vehicle imported and delivered to the buyer before 30 June 2020.
- 2 In case the vehicle imported on or after 1 July 2020 and delivered to the buyer prior to 30 June 2021, the VAT applied by the customs at 15% and should be paid by the seller as per the importation's date applicable percentage (the date of importation is the date where importation take place as per the Unified Customs Law and its procedures applicable in the Kingdom of Saudi Arabia). On the contrary, the 5% VAT applies to the selling transaction from the auto agency to the buyer/client, and the seller has the right to take input tax credit for the VAT paid to customs, through the VAT return.
- 3 In case the vehicle delivered to the buyer after 30 June 2021, the 15% VAT applies to the selling transaction, whereas the seller should issue an additional tax invoice pertaining to the difference of the applicable tax due.

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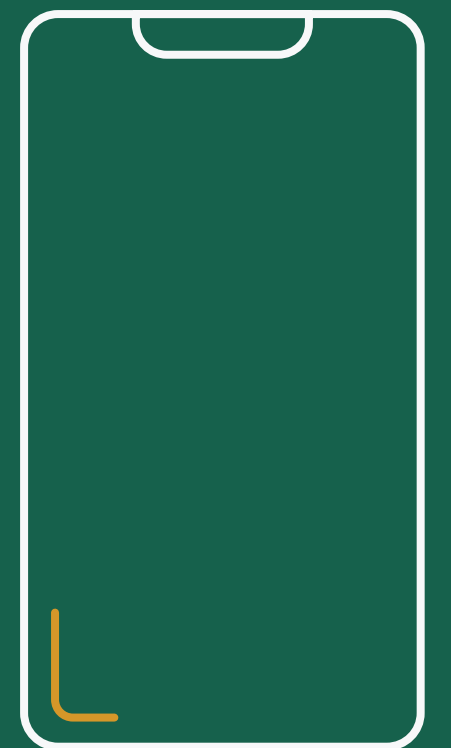


How to deal with Imported shipments placed prior to 1 July 2020?

Example

A mobile phone has been purchased during April 2020 through a global e-selling portal and the buyer paid the total amount for his/her purchase request, but the purchased mobile won't arrive in Saudi before 1 July 2020.

the VAT applied by the customs at 15% as the date of importation falls on or after applying the new percentage (the date of importation is the date where importation take place as per the Unified Customs Law and its procedures applicable in the Kingdom of Saudi Arabia). The 5% VAT applies only in case the importation fulfilled on or before 30 June 2020, and the 15% applies to all importations occur after 30 June 2020.



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VAT



Common terms





Value-Added Tax

A tax imposed on the import and supply of goods and services at every stage of production and distribution, including Nominal Supply.

Taxable Person

A person who practices an economic activity independently for the purpose of generating income and who is registered or obligated to register for tax purposes in accordance with the provisions of VAT Law.

Person

Any natural or legal person, public or private, or any other form of partnership

Economic Activity

The activity that is practiced continuously and regularly to include commercial, industrial, agricultural, vocational, service activities, or any use of tangible or intangible property, and any other similar activity.

Place of Business

The place where a business is legally established; or where its actual management center is located where key business decisions are made if different from the place of establishment.





Fixed Establishment

Any fixed location for a Business other than the Place of Business, in which the business is carried out and is distinguished by the permanent presence of human and technical resources in such a way as to enable the Person to supply or receive Goods or Services

Resident Person

A person will be resident in a State if he has a place of residence therein.

Non-Resident Person

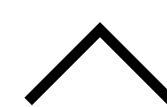
A person is not resident in a State if he has no Place of Residence therein.

The supplier

The person who supplies goods or services

The Client

The person who receives goods or services





Reverse charge mechanism

The mechanism by which the taxpayer is bound by the tax due on behalf of the supplier, and is responsible for all obligations stipulated in Common VAT Agreement of the States of the Gulf Cooperation Council (GCC) and VAT regulations in Saudi Arabia.

Related persons

A group of two or more persons, in which one of the group has the authority to direct and supervise others, so that he has an administrative authority that enables him to influence the work of others people financially, economically, or organizationally, this includes persons under the authority of a third person who would be able to influence their business in financial, economic or organizational terms.

Supply

Any form of supplying goods and services for a fee in accordance with the cases stipulated in Chapter Two of the Common VAT Agreement of the States of the Gulf Cooperation Council (GCC).

Nominal supply

All that is considered as supply in accordance with the cases stipulated in Article (8) of the Common VAT Agreement of the States of the Gulf Cooperation Council (GCC).





Interstitial Imports

It's the tax borne by the taxpayer in relation to the goods or services supplied to him or imported for the purposes of practicing an economic activity.

Charge

All amounts earned or to be earned by the taxable supplier from the customer or from a third party for the supply of goods or services, including value-added tax.

Tax-exempt imports

Imports for which the tax is not imposed, and for which the Interstitial imports tax is not deducted, in accordance with the Common VAT Agreement of the States of the Gulf Cooperation Council (GCC) and VAT regulations in Saudi Arabia.

Taxable imports

Imports for which the tax is imposed by the applicable rate or zero rate, and for which the interstitial imports tax is deducted, in accordance with the Common VAT Agreement of the States of the Gulf Cooperation Council (GCC) and VAT regulations in Saudi Arabia



Goods

All types of tangible property (tangible assets) to include water and all types of energy including electricity, gas, lighting, heat, cooling, and air conditioning

Deductible tax

Interstitial imports tax that may be deducted from the tax due on imports for each taxable fiscal period in accordance with the provisions of the Common VAT Agreement of the States of the Gulf Cooperation Council (GCC) and VAT regulations in Saudi Arabia.

Tax period

The period over which the net tax must be calculated



Net Tax

The tax resulting from subtracting the tax that is deductible in a member state from the tax due in the country during the same taxable fiscal period, the net tax may be either due for payment or refundable.

The Mandatory Registration Threshold

The minimum actual value of imports by which the taxpayer is obligated to register for tax purposes

The Voluntary Registration Threshold

The minimum actual value of imports by which the taxpayer may request registration for tax purposes

Tax invoice

A billing issued for taxable imports in accordance with the requirements provided for in the value-added tax instructions and its executive regulations.





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