

## VAT Alert

May 29, 2025

### Saudi Arabia approves amendments to VAT Implementing Regulations

#### Introduction

Subsequent to the public consultation process, the Board of the Zakat, Tax and Customs Authority (ZATCA) has approved amendments to the VAT Implementing Regulations (VAT IRs). The official decision was published in the Official Gazette on April 18, 2025. The updated regulations and their detailed amendments are accessible via the ZATCA Portal through the following link (in Arabic):.

<https://zatca.gov.sa/ar/RulesRegulations/Taxes/Documents/Implementing%20Regulations%20of%20the%20VAT%20Law.pdf>

#### Effective Date

The amendments will take effect on April 18, 2025, subject to the following:

- A grace period of 180 days from the announcement of the approved amendments, i.e., until October 15, 2025) is provided for VAT group members to adjust their status according to the amended VAT IRs.
- Deemed Supplier Provision (Article 47, Paragraph 3): Related to electronic marketplaces, effective January 1, 2026.



#### Dhruva comments:

The amendments to the VAT IRs have introduced significant changes, particularly in relation to VAT grouping, business transfers, Customs suspension zones and input VAT deduction.

Some of the changes shall be effective immediately, while others within 180 days, and some are starting from January 1, 2026. Given the scope and timeline of these changes, businesses should carry out a timely and thorough impact assessment to update VAT systems, contractual arrangements, and reporting procedures.

# Highlights of the Amended VAT Implementing Regulations

Description	Key highlights/ amendments
<b>VAT group</b>	<ul style="list-style-type: none"> <li>To qualify for a VAT group, each entity must engage in taxable economic activities and be eligible for VAT registration individually. Previously, only one member was required to meet this criteria.</li> <li>Following persons are not permitted to join a VAT group <ul style="list-style-type: none"> <li>Persons licensed to operate in special zones under customs suspension</li> <li>Eligible Persons (including a Licensed Real Estate Developer) eligible to claim refund under Article (70) of the Amended VAT IRs</li> <li>A member of another VAT group</li> </ul> </li> <li>A new para has been added which clearly lays down the consequences of registration as a VAT group – effectively stating that any by one group member shall be deemed to be considered for the entire group.</li> </ul>
<b>Definition of service</b>	<ul style="list-style-type: none"> <li>A non-exhaustive list of what constitutes a services has been added. The examples inter-alia includes the following: <ul style="list-style-type: none"> <li>granting or assigning or waiving rights</li> <li>providing an advantage or facility</li> <li>refraining from certain actions, agreeing to tolerate an act</li> </ul> </li> </ul> <p>In our view, this amendment is clarificatory in nature to remove any ambiguity on the definition of services and make it broad based.</p>
<b>Deemed supplies</b>	<ul style="list-style-type: none"> <li>The VAT IRs are now aligned with Article 8 of the GCC VAT Agreement. Deemed supplies now apply only to cases specified in the GCC VAT Agreement, the VAT Law, and the Amended VAT IRs, unless otherwise stated.</li> <li>The scope of deemed supplies has been expanded to include cases of retaining goods after ceasing to carry on an economic activity or when a person is no longer eligible for VAT registration.</li> <li>The amendment also makes it mandatory for the taxable person to retain documents proving that they did not recover the input tax to substantiate that instance of deemed supplies has not occurred. However, no specific documentation has been prescribed.</li> </ul>
<b>Transfer of going concern (TOGC)</b>	<ul style="list-style-type: none"> <li>In case of a TOGC, now both the supplier and recipient need to notify ZATCA of a TOGC transaction by the end of the month following the transaction. The ZATCA will provide a specific form for this notification, requiring certain details which inter-alia includes the details of the transferred goods and services, along with a copy of the transfer agreement.</li> <li>Going forward, the transferee can exercise the right to deduct or refund input VAT related to the transferred activity, including making adjustment to input or output tax previously declared by the supplier. It remains to be seen whether there would be any practical challenges such as invoices not being in the name of transferee or issuing the credit notes under the e-invoicing regime.</li> <li>It has now been specifically provided that in no cases, the recipient will assume the supplier's responsibility for any tax violations that occurred prior to the transfer date concerning the goods and services involved in the transfer.</li> <li>It has been clarified that transfer of economic activity shall not result in transfer of the suppliers TIN.</li> </ul>

# Highlights of the Amended VAT IR

Description	Key highlights
VAT suspension	<ul style="list-style-type: none"> <li>The VAT IRs clarify the VAT treatment of goods under customs duty suspension, subject to retaining relevant documents. Generally, the supplies within the suspension zone is subject to 0% VAT.</li> <li>The re-export of goods that were temporarily imported in the KSA for repair, restoration, conversion, or processing shall also be subject to 0% VAT. In addition, the services added to those goods (during their temporary stay in the KSA) shall be subject to zero-rate.</li> <li>Water and energy supplies are excluded from these Customs/VAT suspension provisions.</li> </ul>
Export of service	<ul style="list-style-type: none"> <li>The exceptions to Article 33, which restrict the applicability of % VAT have been rationalized as follows: <ul style="list-style-type: none"> <li>The direct benefit of service if happening in the KSA should be enjoyed by either the customer or a related party, as opposed to 'any other person' previously.</li> <li>Now it has been specifically clarified that services need to be physically provided on tangible goods physically located in the KSA.</li> </ul> </li> </ul> <p>In our view, the amendment demonstrate the policy intent for a wider application of the zero-rating provisions. The amendment around services on tangible goods is welcome due to previous ambiguities surrounding the provision.</p>
Input VAT recovery for supplies under financing contracts	<ul style="list-style-type: none"> <li>As a standard, taxable persons need to adjust their input tax if they recovered the input tax, but did not fully pay the consideration to the supplier within 12 months. The Amended VAT IRs provide an exception that allows full input tax deduction under financing contracts, where payment is made in periodic instalments if : <ul style="list-style-type: none"> <li>the contract remains in force,</li> <li>there are no legal disputes regarding the contract and</li> <li>the supplier has reported the full output tax amount in their VAT returns</li> <li>The customer has written certificates from the suppliers confirming that full amount of VAT has been reported</li> </ul> </li> </ul>
Electronic marketplace	<ul style="list-style-type: none"> <li>A definition of an "electronic marketplace" for VAT purposes has been introduced.</li> <li>As per the new definition, to qualify as an electronic marketplace, the platform must actively facilitate the supply of goods or services . If the platform's role is only to process payments for purchases, or only to advertise or promote products, or only to redirect customers to another electronic marketplace which in turn facilitates the supply, then those cases are not considered facilitation of the supply by the platform.</li> </ul>
Electronic marketplace facilitating supplies by unregistered residents	<ul style="list-style-type: none"> <li>The amendment provides that such cases the electronic marketplace shall be deemed to be the supplier and be liable to account for VAT.</li> <li>In our view, inter-alia this amendment is likely to impact platforms providing ride hailing services where most of the cabs are operated by unregistered individuals.</li> </ul>

# Highlights of the Amended VAT IR

Description	Key highlights
Input tax deduction on motor vehicles	<ul style="list-style-type: none"><li>• The amendment has narrowed the definition of a restricted motor vehicle. The definition now excludes vehicles that carry more than 10 persons, vehicles that carry heavy equipment, vehicles intended for resale or lease, emergency vehicles, and vehicles for exclusive economic use.</li></ul>
Duration for issuing credit and debit notes	<ul style="list-style-type: none"><li>• The amendment has provided a timeframe for taxpayers to issue credit and/or debit notes, which is limited to a maximum of 15 days from the end of the month after any event that requires the issuance of these notes.</li></ul>
Conditions for VAT refund as 'Eligible Person'	<ul style="list-style-type: none"><li>• The amendment prescribes certain additional conditions for the refund:<ul style="list-style-type: none"><li>- The refund eligibility starts from the date of date of submission of the registration application to ZATCA. In specific cases (not yet prescribed), ZATCA may allow refund retrospectively.</li><li>- The minimum threshold for refund has been increased to SAR 5,000 (previously it was SAR 1,000).</li><li>- Refund in relation to simplified invoices may be claimed where the invoices bear the name of the 'Eligible Person'.</li><li>- 'Eligible Person' must retain relevant books, records and documents for at least six years from the end of the refund period.</li></ul></li></ul>

This Tax Alert is intended to provide a general overview of recent tax developments and does not constitute tax, legal, or financial advice. It is a high-level summary and may not address all aspects or implications relevant to your specific situation. Readers are strongly advised to consult with their tax advisor or a qualified professional to assess the impact of these changes on their individual or business circumstances.



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