

Saudi Arabia amends VAT regulations

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Executive summary

On 18 July 2019, amendments to the Kingdom of Saudi Arabia (Saudi Arabia) Value Added Tax (VAT) Implementing Regulations (the Regulations) were published in the *Official Gazette*. The amendments are effective from the date of publication.

Detailed discussion

The amendments have both technical and administrative implications with respect to Saudi Arabia's VAT rules and cover the core areas outlined below.

Services provided to non-GCC residents ("exported service" provisions)

Previously, the Article set out the conditions that must be met for an exported service to be treated as zero-rated. The revised Article now sets out instances where the zero-rated VAT does not apply to an exported service.

The amended article removes the previous broad conditions relating to no "benefit" being enjoyed within the Gulf Cooperation Council (GCC), and replaces them with a condition that the customer (or any other person) must not "directly" enjoy services in the GCC where that other person is not eligible for full input tax recovery on the supply.

This presents an opportunity for businesses providing services to nonresidents to review the application of these rules to its supplies, to ensure that the correct treatment is being applied and that VAT is not being charged to nonresident customers unnecessarily.

Requirements to provide the GAZT with a financial security (e.g., guarantee)

There are revised procedures regarding the submission of financial guarantees to the General Authority of Zakat and Tax (GAZT). In particular, nonresident taxable persons without a tax representative for Saudi Arabia VAT purposes will be required to submit a guarantee for an amount determined by the GAZT.

Storage of VAT-related records for nonresident taxpayers

Under this amendment, nonresident taxable persons who do not appoint a tax representative are required to appoint a third-party for the storage and maintenance of their VAT-related records in Saudi Arabia.

Refund of tax to designated persons (e.g., qualifying government bodies)

This amendment relieves certain designated persons (e.g., foreign governments and international organizations) from the restrictions that apply in relation to the refund of VAT incurred on purchases for which the associated input VAT is blocked under Article 50 of the Regulations.

The GAZT may request additional evidence to support input tax claims submitted by designated persons. In this instance the GAZT will provide at least 20 days to submit additional evidence requested, which may include invoices, records, and other information in electronic or physical form.

Tax representative, tax agents and appointed persons

The amendment means that the appointment of a local tax representative by a nonresident taxable person is now optional, however as noted under section 2, the amendments introduce a requirement for nonresident taxable persons to submit a financial or a bank guarantee for the purposes of VAT registration in Saudi Arabia where no representative is appointed.

The requirement for Saudi Arabian resident taxable persons to notify the GAZT of the appointment of a tax agent has been removed.

Transitional provisions and application of intra-GCC rules

This amendment specifies that a GCC country implementing VAT will not be treated as a Member State for VAT purposes, unless such GCC country implements an electronic services system.

Implications

Many of the amendments are expected to have a significant impact on the Saudi Arabian VAT regime, especially with respect to the activities of nonresident taxable businesses and businesses providing services to nonresident customers. Businesses should review the amendments to determine the impact on their business.

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