



الهيئة العامة للزكاة والدخل
General Authority of Zakat & Tax

VAT Guideline: Investment Funds, Trusts and Estates

June 2019

Version: 1

Contents

1. Introduction	3
1.1. About Gazt	3
1.2. This Guideline	3
2. Terms used in this Guidance	4
3. Application of VAT to Trusts	8
3.1. Creation of a Trust.....	8
3.2. Registration of the Trust.....	9
3.3. Activities of a Trustee	10
3.4. Distributions from the Trust.....	11
3.5. Administrative obligations.....	12
3.6. Changes to a Trust.....	12
3.7. Deregistration of a Trust.....	12
4. Application of VAT to Investment Funds	14
4.1. Registration of the Investment Fund.....	14
4.2. Investment in the Investment Fund.....	14
4.3. Activities of a Fund Manager.....	14
4.4. Distributions from the Fund.....	16
4.5. Administrative obligations	16
4.6. Changes to a Fund	17
4.7. Deregistration of a Fund	17
5. Estates and Inheritance	18
5.1. Estate of a Non-Taxable Person.....	18
5.2. Estate of a Taxable Person during interim period after death.....	18
5.3. Distributions of the Estate to Inheritors.....	19
5.4. Use of the Estate by Inheritors.....	19

1. Introduction

1.1. About GAZT

The General Authority of Zakat and Tax (GAZT or “the Authority”) is the government body tasked with regulating, enforcing, administering and implementing taxation in the KSA. GAZT aims to collect VAT and other taxes and facilitate taxpayers in achieving the highest degree of compliance.

One of GAZT’s roles is to raise awareness among taxpayers, to provide information for taxpayers to understand VAT obligations and to facilitate VAT compliance. As part of this GAZT has released many guidelines to provide additional clarification on VAT, in relation to specific sectors and circumstances.

1.2. This Guideline

This Guideline is published by GAZT to provide guidance to Taxpayers, their agents, and any other persons in respect of the application of VAT to common legally recognised and documented investment structures administered by agents, such as an Investment Fund or a Trust. This Guideline also covers the application of VAT to the Estates of deceased natural Persons.

This Guideline comments on the general obligations for Unitholders, Inheritors, Beneficiaries, Custodians and persons responsible for administering Trusts, Investment Funds and Estates and the corresponding Assets.

This Guideline solely serves as guidance material, and does not include or purport to include all relevant information or legal provisions in relation to investment structures. It is not binding on GAZT or on any taxpayer in respect of any transaction carried out and it cannot be relied upon in any way.

This guideline does not provide any information in respect of inheritance law in Saudi Arabia, or the legal recognition of assets placed in trust. The VAT guidance in this guideline are intended to be applied as general principles to structures that are legally recognised under the laws applicable in Saudi Arabia. However, the treatment of an individual arrangement will in all cases depend on the specific fact circumstances. Readers of this guidance should be aware that facts of individual cases may differ from the general VAT principles which are outlined in this guidance.

Any person who wishes to obtain guidance on the general laws applying to investments, inheritance, trusts, investment funds and estates in Saudi Arabia is advised to seek appropriate legal advice.

2. Terms used in this Guidance

Economic Activity

Is a defined term under the GCC Unified VAT Agreement.

“An activity that is conducted in an ongoing and regular manner including commercial, industrial, agricultural or professional activities or Services or any use of material or immaterial property and any other similar activity.⁽¹⁾”

Please see the taxpayer guideline on Economic Activity for further detail.

Taxable Person

Is a defined term under the GCC Unified VAT Agreement.

“A Person conducting an Economic Activity independently for the purpose of generating income, who is registered or obligated to register for VAT in accordance with the provisions of [the] Agreement.⁽²⁾”

GAZT makes the following interpretative observations which are relevant to Trusts, Investment Funds and Estates:

- A Trust or an Investment Fund which is established in accordance with under Saudi law and which carries on an independent Economic Activity is eligible to be viewed as a distinct Taxable Person for VAT purposes.
- The continuing activities of a deceased natural Person which during the winding up and transfer of his Estate to his Inheritors can be considered an independent Economic Activity. In this way, a deceased natural person could continue to be viewed as a Taxable Person.
- A group of Inheritors who are recognised by law to carry on an Economic activity in a partnership, including partnerships recognised by Sharia law, could be viewed as a distinct Taxable Person for VAT purposes.

Trust

May also be referred as an endowment, or a Waqf under Islamic law.

These terms are not defined for VAT purposes. For the purpose of this guideline, GAZT considers a Trust to be any legally recognised and documented structure under which a Settlor voluntarily transfers money or property – such that the money or property no longer forms part of the Settlor’s assets - and are instead to be maintained for the benefit of one or more Beneficiaries, or for another specified purpose.

This definition of a Trust is intended to capture arrangements that follow these general principles, and is not based on a particular arrangement under sharia law or international law.

(1) Article 1, Definitions, Unified VAT Agreement

(2) Article 1, Definitions, Unified VAT Agreement

Trustee	<p>For the purpose of this guideline, the Trustee is a designated person who assumes the functions of administering the Trust by preserving the Trust' assets and related documents, and who is authorized to enter into transactions with third parties on behalf of the Trust and in respect of the Trust Assets. A Trust might have more than one Trustee.</p> <p>The Trustee will often undertake to manage the Trust Assets in accordance with specified terms or instructions evidenced in a Trust Deed or similar document, and might appoint other Persons to assist in managing the Trust Assets.</p>
Settlor	<p>The person who establishes and contributes assets to a Trust. Can also be referred to as the founder of the Trust.</p>
Trust Deed	<p>Legally recognised document confirming the establishment of the Trust.</p>
Beneficiaries	<p>Persons specified to receive benefits of the Trust including distributions of Trust Assets, or Persons eligible to receive distributions from an endowment fund.</p>
Trust Assets	<p>Assets held on trust and managed for a specific purpose. Trust Assets may include both monetary assets and non-monetary assets.</p>
Investment Fund	<p>Is not a defined term for VAT purposes. Investment Funds are regulated in the KSA by the Capital Market Authority and must accord with the relevant provisions of the Capital Market Law and corresponding Regulations⁽³⁾.</p> <p>The term "investment fund" has been defined by the Capital Market Authority as "a collective investment scheme aimed at providing investors therein with an opportunity to participate collectively in the profits of the scheme⁽⁴⁾".</p> <p>GAZT considers that any of these investment funds established with separate personality in the KSA, in accordance with the relevant regulations, will be a separate legal person for VAT purposes.</p> <p>The Investment Funds Regulations⁽⁵⁾ addressing public funds, private funds and foreign funds, provide additional references relevant for the concepts discussed in this Guideline. Reference may also be made to the Real Estate Investment Funds Regulation, Real Estate Investment Traded Funds Instructions and Closed-ended Investment Traded Funds Instructions.</p>

(3) Capital Market Law, Royal Decree No. M/30, 2 /6/1424H. (31/7/ 2003 G.).

(4) Glossary of Defined Terms Used in the Regulations and Rules of the Capital Markets Authority, Issued by the Board of the Capital Market Authority pursuant to its Resolution Number 4-11-2004.

(5) Issued by the Board of the Capital Market Authority Pursuant to its Resolution Number 1 - 219 – 2006 Dated 3/12/1427H

In particular, these regulations specify that public and private Investment Funds shall be established by the signing of the terms and conditions of the relevant fund between the first potential unitholders and the fund manager, and require these investment funds to have a Fund Manager and the Fund Manager to appoint a Custodian to carry out specified activities on behalf of the Fund.

Fund Manager

Is not a defined term for VAT purposes. The Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority has defined the Fund Manager as “a person that is responsible for the management of the assets of an investment fund and the operations of the investment fund, and offering of units of the investment fund.”⁽⁶⁾

The Investment Fund Regulations provide that: “The fund manager must be an authorised persons to conduct the activities of management”⁽⁷⁾, and prescribe the Fund Manager’s duties and responsibilities.

Investor

Is not a defined term for VAT purposes. For the purpose of this guideline an Investor is a unitholder in a public or private Investment Fund, or a Person investing in another type of Investment Fund in the same manner. Based on regulatory provisions for public and private Investment Funds, the unitholder shall be the owner of the units (in the fund) to which it has subscribed and shall be entitled to exercise all rights in relation to the units (including, but not limited to, the right to vote at meetings of unitholders).

Custodian

Is not a defined term for VAT purposes. The Investment Fund Regulations prescribe that a Fund Manager is required to appoint one Custodian or more Custodians in the Kingdom. The Custodian is the designated person responsible for taking custody and protecting the Fund’s assets on behalf of Unitholders, and takes all necessary administrative measures in relation to the custody of the Fund’s assets.

Special Purpose Entity

A subsidiary entity created by the Custodian for the registration of the assets held on behalf of the Investment Fund.

Estate

Assets of a deceased natural person or persons. The Estate may include both monetary and non-monetary assets.

(6) Glossary of Defined Terms Used in the Regulations and Rules of the Capital Markets Authority, Issued by the Board of the Capital Market Authority pursuant to its Resolution Number 4-11-2004

(7) Article 8, Eligibility Requirements, Investment Fund Regulations

Appointed Person

A person appointed to administer, manage, liquidate or wind up the affairs of a Taxable Person, including the Estate of a deceased natural person. The concept of the Appointed Person is set out in the VAT Implementing Regulations⁽⁸⁾.

Inheritor

Any person recognised by law, or by any other document accepted in law, as being eligible to receive a part or all of the Estate.

(8) Article 77(5), Tax Representatives, Tax Agents and Appointed Persons, Implementing Regulations

3. Application of VAT to Trusts

3.1. Creation of a Trust

A Settlor creates a Trust by placing the Settlor's own assets into a legally recognised vehicle to be administered by a Trustee. After the contribution, the Settlor no longer owns or has the right to dispose of the assets. These Trust Assets become the property of the Trust, to be administered by the Trustee.

Example (1): Mr Ahmadi is a Taxable Person carrying on business in Saudi Arabia. He decides to contribute money and real estate assets to a waqf investment fund approved by the General Authority for Awqaf for use in charitable purposes. The assets are recorded into the fund by the Trustee and are no longer under the control of Mr Ahmadi.

This is different to a situation where a Taxable Person sets aside its own assets, or holds assets for a specific use but retains ownership to those assets. In these cases, the Economic Activity relating to those assets is still carried on by the owner.

Example (2): A Saudi real estate company announces it intends to invest the profits from a commercial rental of a new office building in Tabuk for charitable purposes, by donating these to schools in the Tabuk region. The office building continues to be owned by the real estate company, and the company has the power to use or dispose of the building if it wishes. The office building is therefore not held in a Trust and remains part of the real estate company's Economic Activity.

The contribution of assets to a Trust can be treated in two ways for VAT purposes:

1. The Settlor contributes the assets of an existing Economic Activity capable of being carried on in its own right.

- The transfer of an existing Economic Activity (or part Economic Activity which is capable of operation in its own right) will be treated as not being a supply of goods or services⁽⁹⁾, subject to meeting various criteria. Please refer to the taxpayer guideline on Business Transfers for further detail on the transfers which qualify for this treatment. In cases where the criteria for the transfer of Economic Activity are not met, the contribution will be treated as a transfer of individual assets.

Example (3): A business owner wishes to transfer the commercial property division of his business to a Trust to be administered for the benefit of specified family members. The Trust will become a VAT registered Taxable Person upon the transfer and continued operation of the business. The Settlor and the Trustee (in the name of the Trust) agree that they wish the transfer to be viewed as the transfer of an Economic Activity. The transfer of the Trust Assets to the Trust falls within the scope of article 17 of the Implementing Regulations and is not a supply of goods or services.

2. The Settlor contributes individual assets. This will generally be seen as a private activity which is not carried out in the course of an Economic Activity.

- If the Settlor makes a contribution of money to the Trust, this is not subject to VAT.
- If the non-monetary assets are private assets of the Settlor and do not form part of an existing business activity, no VAT obligations arise on their contribution.

⁽⁹⁾ Article 17, Transactions not falling within the scope of Tax - transfer of an Economic Activity, Implementing Regulations

- If the Settlor is a Taxable Person and has deducted Input Tax on tangible assets acquired within his business, but changes these to private assets to contribute these to the Trust: the subsequent change of use of those assets for a permanent private (non-economic) purpose results in a Nominal Supply⁽¹⁰⁾ by that Taxable Person.
- If the Settlor is a Taxable Person and makes a supply of non-monetary assets to the Trust for consideration as part of his economic activity, VAT will arise on the supply of Taxable Goods or Services. In any cases where a Taxable Supply takes place, the settlor and the trust are considered to be Related Persons, and any such supply may be required to be valued at Fair Market Value⁽¹¹⁾.

The taxpayer guideline on Capital Assets sets out the formula to calculate the Nominal Supply on a permanent change to the use of a Capital Asset.

Example (4): Khalid owns publicly traded shares in Saudi companies listed on Tadawul and a collection of valuable works of art. Khalid holds these assets as a personal investment only and does not carry on any ongoing economic activity trading in shares or artwork. He subsequently transfers the shares and artwork to be held in trust for specified Beneficiaries. The transfer of these assets is not part of Khalid's Economic Activity and is not subject to VAT. Note that the transfer of shares would also be exempted from VAT if part of an Economic Activity.

Example (5): Mr Al Hazmi is a Taxable Person who carries on a transportation business. He decides to sell three trucks and put the money into a Trust for three of his children. The sale takes place as part of his business and is subject to VAT. The subsequent contribution of the sale proceeds as money to the Trust does not have VAT consequences.

Example (6): Nur is a licensed trader of jewellery and is registered as a Taxable Person. In 2019, she purchases jewellery for use in the business. Three months later, she decides to contribute the jewellery to a Trust be held for the private benefit of certain family members. The jewellery was not used in the Economic Activities of the business. Nur must make an adjustment to the Input Tax deducted on the purchase of the jewellery.

3.2. Registration of the Trust

GAZT considers that, in cases where a Trust obtains the ownership to assets and has the capability to dispose of the assets in its own right, the Trust is considered to be a Person for VAT purposes and will be able to conduct an Economic Activity independently and in its own right with those assets. In these cases, a Trust can be considered a Taxable Person if it is registered or required to be registered in the Kingdom⁽¹²⁾, and will therefore be registered for VAT.

The Trust must nominate one Trustee or similar representative, who assumes a stewardship role over the Trust assets, and who is authorized to make decisions and enter into contracts on behalf of the Trust. The registration application of the Trust must specify this nominated Trustee.

If the Trust is not already registered with GAZT, it must apply for a Tax Identification Number before completing the VAT registration. When completing the VAT registration, the Trust Deed, or the equivalent formal document which creates the Trust, must be provided with the electronic application as a "supporting document for VAT eligibility" to process the registration of the Trust.

(10) Article 8, Deemed Supply, Unified VAT Agreement

(11) Article 38, Fair Market Value, Implementing Regulations

(12) Article 2, Taxable Persons required or eligible to register in the Kingdom, Implementing Regulations

Upon registration, the Authority will address all correspondence relating to the VAT obligations of the Trust to the Trustee. The Trust, as the Taxable Person, is primarily liable for the VAT obligations arising from the economic activity, but these obligations will be carried out by the Trustee in practice. Section 3.5 contains more detail.

3.3. Activities of a Trustee

The Trustee carries out activities as a representative in respect of the Trust Assets and on behalf of the Trust and in accordance with the instructions in the Trust Deed (and also in accordance with specific requirements in law, where applicable).

The Trustee also performs services in its own name, as a Trustee for the Trust in carrying out its designated roles.

3.3.1. Activities performed on behalf of the Trust

For VAT purposes, GAZT assumes that the Trustee manages the Trust Assets in the following capacity:

- acting on behalf of the Trust; and
- acting in the name of the Trust (meaning that the Trustee does not act in its own name).

This means that whilst the Trustee will take responsibility for entering into contracts to make or receive supplies of goods and services, the Trustee is only acting as an Agent, and the Trust itself is deemed to act as the Supplier or Customer. This is depicted in the diagram below. The taxpayer guideline on Agents has further general advice on the application of VAT to supplies made in an Agent's own name and those made in the name of a principal.

If the Trust Assets are used to make supplies of goods or services, the Trustee should therefore arrange for Tax Invoices to be issued in the name of the Trust and showing the Trust's VAT registration number.

Tax invoices issued by Suppliers for purchases made in the name of the Trust should show the Trust as the Customer. The contractual and associated commercial documentation should also reflect that the Trust is the Customer. This will support the Trust's ability to deduct Input Tax on purchases which are incurred for the Trust's Taxable Supplies and are eligible for deduction.

Example (7): Jamila acts as Trustee on behalf of, and in the name of, the Naim Family Trust. Both Jamila and the Trust are Taxable Persons. The Trust owns commercial real estate which it rents to third party tenants. Jamila arranges for Tax Invoices to be issued for the commercial rent showing the Naim Family Trust as the Supplier, and showing its VAT registration number.

3.3.2. Activities performed in the Trustee's own name

The Trustee's services carried out for its own account, and its other economic activities, are separate to the activity it performs on behalf of the Trust. The supplies made and received in the Trustee's own name must be recorded and reported separately to the supplies the Trustee enters into on the Trust's behalf.

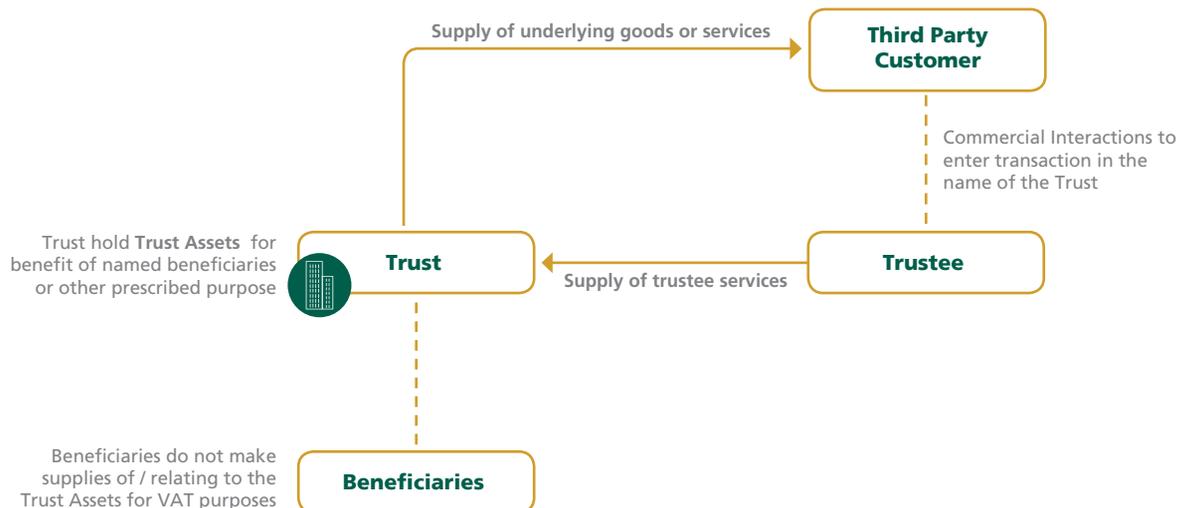
If the Trustee is a Taxable Person (for example, if its own annual income exceeds the mandatory registration threshold), it must register for VAT separately in its own name.

The Trustee must issue Tax Invoices to the Trust for the services it provides to the Trust. The Trustee and the Trust are considered Related Persons, and the supply is therefore subject to special valuation provisions for supplies between Related Persons.⁽¹³⁾

(13) Article 38, Fair Market Value, Implementing Regulations

Example (8): As Trustee, Jamila is entitled to charge an annual fee for carrying out administration services. Jamila issues a Tax Invoice showing her business name and VAT registration number to the Trust. Jamila arranges for the Tax Invoice to be paid from the Trust's available funds.

The diagram below depicts an arrangement whereby Trust Assets are held by a Trust, and the Trustee enters into transactions with third parties to make supplies of those Trust Assets on behalf of, and in the name of, the Trust.



3.4. Distributions from the Trust

3.4.1. Monetary distributions

Monetary distributions from a Trust to Beneficiaries are not a supply of goods or services and are not subject to VAT.

3.4.2. Distribution of assets

If a Trust distributes a particular tangible Trust Asset to a Beneficiary, this is a supply of Goods. A Trust and a beneficiary are Related Persons for VAT purposes, and therefore a supply made for consideration must be valued in line with valuation rules for supplies between Related Persons⁽¹⁴⁾.

If the supply is made for no Consideration, and the Trust deducted Input Tax on acquiring that Trust Asset, this will result in the Trust making a Nominal Supply of that Asset.

Example (9): A VAT-registered Trust purchases a vehicle which it uses within its Economic Activities. It fully deducts input VAT on purchase of the vehicle. One year later, it decides to give the vehicle to one of the Beneficiaries instead of a financial distribution. The vehicle is a Capital Asset which has been partly used in the Economic Activity, and then permanently changed to private use. The Trust must make a Nominal Supply to reflect this change to permanent use over the remaining Adjustment Period of the vehicle.

(14) Article 38, Fair Market Value, Implementing Regulations

3.4.3. Private use of Trust Assets

If a Trust permits the private use of Trust Assets to a Beneficiary for no Consideration, and the Trust deducted Input Tax on acquiring that Trust Asset, this will result in the Trust making a Nominal Supply⁽¹⁵⁾.

3.5. Administrative obligations

The Trustee will carry out the VAT obligations of the Trust as prescribed by the VAT Law and Implementing Regulations, including:

- Issuing Tax invoices in respect of supplies of goods or services made by the Trust;
- Submitting Tax Returns for the activities of the Trust;
- Arranging payment of Tax Due to the Authority (from the Trust Assets);
- Retaining records in respect of the Trust's activities in accordance with the requirements prescribed in the Implementing Regulations;
- Providing information requested by the Authority in the event of an examination of the Trust's activities; and
- Other correspondence with the Authority in respect of VAT, as is required from time to time.

The Trust is primarily responsible for these administrative obligations. However, if the Trustee fails to comply with any tax obligations of the Trust, GAZT may hold the Trustee jointly liable with the Trust for these obligations.

Payments of Tax Due are to be made from the Trust Assets. GAZT may also hold the Trustee liable for payment of Tax Due, provided that there were sufficient Trust Assets available to make payment and the Trustee failed to settle promptly.

3.6. Changes to a Trust

Any change to the details of the Trust as a Taxable Person must be notified to GAZT within 20 days⁽¹⁶⁾. This includes a change to the Person acting as Trustee.

The Trustee remains responsible for fulfilling the obligations of the Trust until such time as a new Trustee is appointed and notified to the Authority. Upon the change of a Trustee, the existing Trustee should ensure that records of the Trust's activities are provided to the new Trustee, or are otherwise available to be provided to the Authority on request.

3.7. Deregistration of a Trust

In many cases, a Trust Deed or its arrangements will specify a certain date or event upon which the Trust will cease operating as a distinct economic activity. After this date or event, the remaining Trust Assets will be distributed as set out in the Trust Deed or as otherwise determined by law.

(15) Article 8(2), Nominal Supply, Unified VAT Agreement

(16) Article 8(7), Application for registration, Implementing Regulations

The cessation of the Trust's activity requires the Trust to deregister. The Trustee must submit an application to deregister within 30 days of the cessation, and must fulfil the remaining VAT obligations of the Trust, such as filing final returns and settling payments of tax due. Deregistration will take effect from the date determined by the Authority after its approval of the deregistration⁽¹⁷⁾.

Distributions upon the cessation of the Trust are treated as described in section 3.4. above.

The Trust may also deregister in cases where it continues to carry out an economic activity in respect of the Trust Assets, but the annual taxable turnover no longer exceeds the Mandatory Registration Threshold.

(17) Article 13, Deregistration, Implementing Regulations

4. Application of VAT to Investment Funds

4.1. Registration of the Investment Fund

An Investment Fund is considered to be a Person for VAT purposes and will carry out an Economic Activity with the invested assets, independently to any Unitholders or other Investors. An Investment Fund will be considered a Taxable Person if it is registered or required to be registered in the Kingdom⁽¹⁸⁾, and will therefore be registered for VAT in its own right.

The Fund Manager is responsible for administrative filings on behalf of the Investment Fund, including VAT filings. The registration application of the Fund must specify the Fund Manager.

If the Investment Fund is not already registered with GAZT, it must apply for a tax identification number before completing the VAT registration. When completing the VAT registration, the terms and conditions of the Investment Fund, or the equivalent formal document which creates the Investment Fund, must be provided with the electronic application as a “supporting document for VAT eligibility” to process the registration of the Investment Fund.

Upon registration, GAZT will address all correspondence relating to the VAT obligations of the Investment Fund to the Fund Manager. The Investment Fund, as the Taxable Person, is primarily liable for the VAT obligations arising from the economic activity, but these obligations will be carried out by the Fund Manager in practice. Section 4.5 contains more detail.

4.2. Investment in the Investment Fund

A Unitholder invests in a regulated Investment Fund by subscribing to units offered by the Fund, after which the Unitholder owns a unit in the Fund. Therefore, the assets of an investment fund will be owned collectively by the individual unitholders, and to be managed by the Fund Manager.

GAZT considers that a unit in an Investment Fund is an equity security. The issue or transfer of a unit is exempt from VAT⁽¹⁹⁾.

Example (10): Mr Hussein is a Taxable Person carrying on business in Saudi Arabia. He decides to subscribe to units in Falcon Saudi Fund, a public Fund for which the price per unit is calculated (by reference to the net asset value per unit of the public fund at the valuation point on the relevant dealing day) at SAR 10,000. Mr. Hussein subscribes to 100 units.

The Fund Manager will process the request for subscription and collect the subscription money from Mr. Hussein. The issue of the units in Falcon Saudi Fund is not subject to VAT.

4.3. Activities of a Fund Manager

The Fund Manager carries out the investment activities of the Fund on behalf of and as specifically authorised by the group of Investors, in accordance with terms and conditions signed by and with the relevant requirements in law. The Fund Manager also performs services in its own name, as a Fund Manager carrying out its designated role and duties for the Investment Fund.

(18) Article 2, Taxable Persons required or eligible to register in the Kingdom, Implementing Regulations

(19) Article 29(6), Financial services, Implementing Regulations

4.3.1. Activities performed on behalf of the Fund

To manage the investment activities in the Investment Fund, Fund Manager will take responsibility for entering into contracts to make or receive supplies of goods and services. However, the Fund Manager is only acting as an Agent in these cases. The Investment Fund itself is deemed to act as the Supplier, for income received by the Fund. The Fund Manager should arrange for Tax Invoices to be issued in the name of the Investment Fund and showing the Investment Fund's VAT registration number.

In cases where the Fund Manager purchases an asset to be owned by the Investment Fund, or purchases services for the use of the Investment Fund, these are supplies made to the Investment Fund as Customer. As the Customer, the Investment Fund has the right to deduct Input Tax, provided the purchase relates to the Investment Fund's taxable supplies, and the other criteria for Input Tax deduction are met. Tax invoices issued by Suppliers for purchases made by the Investment Fund should show the name of the Investment Fund as the Customer. The contractual and associated commercial documentation should also reflect that the Investment Fund is the Customer.

The taxpayer guideline on Agents contains further general advice on the application of VAT to supplies made in an Agent's own name and those made in the name of a principal.

4.3.2. Activities performed in the Fund Manager's own name

The Fund Manager's services carried out for its own account, and any other economic activities the Fund Manager carries on, are separate to the activity it performs on behalf of the Investment Fund. The Fund Manager's own activities must be recorded and reported separately to those of the Investment Fund.

If the Fund Manager is a Taxable Person, it must register for VAT separately in its own name, and issue Tax Invoices to the Fund for the services it provides to the Fund.

4.3.3. Activities performed by a Custodian

A Custodian is the designated person responsible for taking custody and protecting a Fund's assets on behalf of Unitholders, and takes all necessary administrative measures in relation to the custody of the Fund's assets. In order to do so, formal ownership of the assets is transferred (temporarily) to the Custodian.

The Custodian is unable to dispose of the property without this being formally requested by the Fund (in practice by the Fund Manager).

In the case that the formal title of assets is transferred temporarily as security - through the Special Purpose Entity created by the Custodian:

- from the Fund Manager to the Custodian (or its Special Purpose Entity),
- from one Custodian to another Custodian (or their Special Purpose Entities),
- from a Custodian or its Special Purpose Entity to a Unitholder, only in cases of temporary transfer.

and the Custodian (or its the Special Purpose Entity) is not at any point able to dispose of the assets for its own account, then the transfers of formal title are not subject to VAT.

Therefore, if a Fund Manager purchases an asset from a third party seller on behalf of the Investment Fund and registers the formal ownership in the name of the Custodian or Special Purpose Entity, this is a supply directly from the third party seller to the Fund. The Custodian or Special Purpose Entity is not the purchaser of the asset for VAT purposes. The third party seller will be responsible for collecting the VAT from the Fund Manager and pay to the Authority.

In all cases, the contractual documentation for a transfer to a Custodian or Special Purpose Entity should evidence that the formal ownership of the assets is temporary and cannot be disposed of by the Custodian or Special Purpose Entity without instruction from the Fund Manager.

In cases where the Fund Manager instructs the Custodian to transfer the formal ownership of an asset on behalf of the Investment Fund to a third party purchaser (to facilitate a sale made by the Investment Fund for its own account) the transfer of ownership by the Custodian does not constitute a supply of the goods by the Custodian. Any such supply will be made by the Investment Fund itself for VAT purposes, and the Investment Fund will be responsible for charging and reporting VAT on the supply.

Whilst the Custodian protects assets on behalf of Unitholders, it does not carry on the economic activity related to the Fund.

The Custodian may however be liable for VAT on the property if it obtains the right to dispose of the property for its own account. A supply of an asset made by the Custodian for its own account should be subject to VAT.

4.4. Distributions from the Fund

4.4.1. Monetary distributions

Monetary distributions from a Fund to Unitholders are not a supply of goods or services and are not subject to VAT.

4.4.2. Distribution of assets

In cases where an Investment Fund distributes a particular tangible Fund Asset to a Unitholder, Investor or Beneficiary, this constitutes a supply of Goods by the Investment Fund. If the supply is made for no Consideration, and the Fund deducted Input Tax on acquiring that Fund Asset, this will result in the Fund being deemed to make a Nominal Supply of that Asset for VAT purposes only (similar to example 9 above).

4.5. Administrative obligations

The Fund Manager will carry out the VAT obligations of the Fund as prescribed by the VAT Law and Implementing Regulations, including:

- Issuing Tax invoices in respect of supplies of goods or services made by the Fund;
- Submitting Tax Returns for the activities of the Fund;
- Arranging payment of Tax Due to the Authority (from the Fund Assets);
- Retaining records in respect of the Fund's activities in accordance with the requirements prescribed in the Implementing Regulations;
- Providing information requested by the Authority in the event of an examination of the Fund's activities; and
- Other correspondence with the Authority in respect of VAT, as is required from time to time.

The Fund is primarily responsible for these administrative obligations. However, if the Fund fails to comply with any obligations of the Fund, GAZT may hold the Fund Manager jointly liable with the Fund for these obligations⁽²⁰⁾.

(20) Article 67, Joint liability for Tax and penalties, Implementing Regulations

Payments of Tax Due are to be made from the Fund Assets. GAZT may also hold the Fund Manager liable for payment of Tax Due, provided that there were sufficient Fund Assets available to make payment and the Fund Manager failed to settle promptly.

4.6. Changes to a Fund

Any change to the details of the Fund as a Taxable Person must be notified to GAZT within 20 days⁽²¹⁾. This includes a change to the Fund Manager.

The existing Fund Manager remains responsible for fulfilling the obligations of the Investment Fund until such time as a new Fund Manager is appointed and notified to GAZT. Upon the change of a Fund Manager, the existing Fund Manager should ensure that records of the Investment Fund's activities are provided to the new Fund Manager, or are otherwise available to be provided to the Authority on request. Note that the existing Fund Manager will also be required to transfer its obligations under Investment Fund Regulations to the new Fund Manager.

4.7. Deregistration of a Fund

The cessation of an Investment Fund's activity requires the Fund to deregister. The Fund Manager must submit an application to deregister within 30 days of the cessation, and must fulfil the remaining VAT obligations of the Fund, such as filing final returns and settling payments of tax due. Deregistration will take effect from the date determined by the Authority after its approval of the deregistration⁽²²⁾.

Distributions upon the cessation of the Fund are treated as described in section 4.4. above.

The Fund may also deregister in cases where it continues to carry out an economic activity, but the annual taxable turnover no longer exceeds the Mandatory Registration Threshold.

(21) Article 8(7), Application for registration, Implementing Regulations

(22) Article 13, Deregistration, Implementing Regulations

5. Estates and Inheritance

Upon the death of a natural person, the Estate is distributed to the Inheritors in line with the applicable law. An Appointed Person may be appointed to wind up the Estate and arrange for the necessary actions in line with inheritance.

5.1. Estate of a Non-Taxable Person

If the deceased was a Non-Taxable Person, the ongoing activities in respect of the Estate were not subject to VAT in the period before the death. Correspondingly, the immediate distribution of that Person's Estate will also not be subject to VAT.

5.2. Estate of a Taxable Person during interim period after death

Activities of a deceased Taxable Person may be continued after death on an interim basis until distribution of the Estate. An Appointed Person will be responsible for administering and managing the Estate during this interim period.

In cases where the activities of the deceased Taxable Person are continued on a temporary basis before the Estate is wound up, GAZT considers that for administrative purposes the deceased Taxable Person continues to be the Taxable Person who acts as Supplier or Customer. During the interim period VAT is collected in the name of the deceased Taxable Person in respect of Taxable Supplies⁽²³⁾ made from the Estate's assets.

During this interim period, the Appointed Person must be notified to the Authority within 20 days of appointment. The Appointed Person will be the person responsible in practice for filing Tax Returns and other administrative VAT obligations. If the Appointed Person fails to comply with any obligations of the Taxable Person, GAZT may hold the Appointed Person jointly liable with the Estate for these obligations. Payments of Tax Due are to be made from the Estate's assets. GAZT may also hold the Appointed Person liable for payment of Tax Due, provided that there were sufficient Estate assets to make payment and the Appointed Person failed to settle promptly.

The interim period should only continue for the time necessary for the inheritance to be correctly finalized and distributed to the Inheritors.

- If the Economic Activity involving the Estate is to be carried on by the Inheritors on an ongoing basis, this is viewed as a distribution of the Estate to the Inheritors (with the Inheritors either as a joint partnership, or individually a distribution of separate parts of the Estate). Please see section 4.4 below for descriptions of the Inheritors carrying on business with the Estate.
- If for any reason the Appointed Person is required to carry on the Economic Activity on an ongoing basis, the Economic Activity is then deemed to be carried on by the Appointed Person from the date the Appointed Person ceases to act on a temporary basis.

"Ongoing basis" will depend on the nature of the activity but is expected to include any activity taking place over a period greater than twelve months.

(23) Article 40(1), General Principle, Unified VAT Agreement – subject to Article 41 for cases falling under the Reverse Charge Mechanism.

5.3. Distributions of the Estate to Inheritors

The distribution of assets making up the Estate to Inheritors is not a supply made in the course of the deceased Person's Economic Activity. There is no VAT charged on the transfer of ownership to the Inheritor.

If the Estate distributes a tangible Capital Asset to an Inheritor in a private capacity within that Asset's Adjustment Period, a Nominal Supply will arise upon the permanent change to non-economic use provided that the Taxable Person had deducted Input Tax on the purchase or import of the Asset.

Circumstances of Distribution	VAT Consequences on Distribution
Distribution to Inheritor for private use – non-tangible asset	No VAT on transfer of ownership
Distribution to Inheritor for private use – tangible Capital Asset within Adjustment Period; deceased Taxable Person deducted Input Tax on purchase or import of Asset	Deceased Taxable Person's previously owned economic activity makes a Nominal Supply for VAT purposes. Refer to Capital Assets guideline for details of calculation.
Distribution to Inheritor for private use – tangible Capital Asset outside of Adjustment Period	No VAT on transfer of ownership
Distribution to Inheritor for private use – deceased Taxable Person did not incur or did not deduct VAT on the purchase or import of the Asset	No VAT on transfer of ownership
Distribution to Inheritor or Inheritors for use in an Economic Activity (see section 4.4)	No VAT on transfer of ownership

5.4. Use of the Estate by Inheritors

5.4.1. Private use of Inherited Estate

If the Inheritor does not carry on a business with the inherited asset, and holds the inherited asset in a private capacity, any onward supply of that asset by the Inheritor is not a Taxable Supply.

Example (11): *Nasr receives farm machinery valued at SAR 900,000 as inheritance from his family Estate. Nasr has an electrical services business and is a Taxable Person. He does not wish to keep the machinery and sells this after an appropriate purchaser is found. Although Nasr is registered for VAT, the sale of the machinery is made in his private capacity and is not subject to VAT.*

If an individual Inheritor sells his share of the inherited Estate in a private capacity to another Inheritor, this is generally viewed to be a private transaction that does not take place as part of an Economic Activity, and is considered to be occurred in the course of immediate allocation of the inherited Estate. VAT does not arise on this transfer.

Example (12): Farid, Atallah and Khalid are three siblings who inherit an equal share in a family farm. Farid and Atallah wish to carry on the farm in partnership, but Khalid does not wish to carry on a farming business or keep this share in the farm. Khalid agrees to let his share in the farm to Farid and Atallah for SAR 600,000. The sale of the share in the farm is carried out in Khalid's private capacity and is considered to be occurred in the course of immediate allocation of the inherited Estate, and is not subject to VAT.

5.4.2. Estate assets are held in a partnership recognised by law and used in an Economic Activity

This includes any partnership of Inheritors with entitlement to the same Estate assets, which is recognised by Sharia law or by any other statute applying in the Kingdom. This can include tenancy in common whereby individual Inheritors have a specified share to the overall Estate (or part thereof).

Such a partnership can be eligible to carry on an independent economic activity with the Estate, or a part of the Estate, and can be a distinct Taxable Person separate to the individual Inheritors.

If a legally recognised partnership of Inheritors carries on an Economic Activity with annual taxable turnover exceeding the Mandatory Registration Threshold, the partnership should be registered with the Authority for VAT.

An application to register the partnership should include details of each individual Inheritor and formal documentation of the partnership.

Example (13): Farid and Attallah are tenants in common carrying on a combined Economic Activity running the family farm in partnership. The siblings are recognised under Saudi law to have a partnership. The partnership must register for VAT as a separate entity for VAT purposes.

5.4.3. Estate assets are split and distributed to be carried on in multiple partnerships.

In these cases, each partnership is capable of carrying on a separate economic activity and being a separate Taxable Person.

Example (14): The Estate of Mr Zahir is split, with children from his first wife entitled to an even share in the assets of his shipping business and children of his second wife entitled to an even share in his real estate assets.

Upon the distribution of the Estate, both sets of children continue the respective partnerships separately. Each partnership must register separately for VAT, if their annual taxable turnover exceeds the Mandatory Registration Threshold.

5.4.4. Inheritors are not in partnership but jointly carry out Economic Activities with Estate assets

Individual Inheritors might each hold a part entitlement to Estate assets, but are not recognised in law to carry on a partnership.

If no partnership is carried on, each Inheritor carries on a separate Economic Activity in respect of their share of the Estate. Each Inheritor must ascertain whether they are a Taxable Person, and if so, must collect VAT on Taxable Supplies made from their part of the Estate and comply with all of the relevant obligations of a Taxable Person.

If multiple Inheritors carry on related activities with the same asset or assets, GAZT can require that the turnover of each partner be added together for the purpose of assessing whether the Mandatory Registration Threshold is exceeded⁽²⁴⁾.

Example (15): As a result of an inheritance, two cousins are entitled to separate but neighbouring parcels of commercial land on which a single storage facility is located. The cousins do not carry on business in a legally recognised partnership and have individual rights to their land and the existing structures. The facility is occupied by one commercial tenant, and each cousin separately agrees with the existing tenant to charge SAR 300,000 for the rental of their parcel of land. The tenant therefore pays SAR 600,000 in total to the cousins.

The cousins have no other Economic Activities, and neither cousin exceeds the Mandatory Registration Threshold in his own right. However, the Authority is entitled to add the annual taxable turnover of the two cousins, and require both to individually register for VAT on the basis that the combined turnover (SAR 600,000) exceeds the Mandatory Registration Threshold.

(24) Article 9(2), Registration provisions applying to specific circumstances, Implementing Regulations

