ضريبة القيمة المضافة
VAT

Capital Assets Guidelines

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Contents

1. Introduction

1.1 Implementing a Value Added Tax ("VAT") system in the Kingdom of Saudi Arabia ("KSA")

The Unified VAT Agreement for the Cooperation Council for the Unified Arab States of the Gulf (the "VAT Agreement") was approved by KSA by a Royal Decree No. M/51, dated 31438/5/ H. Pursuant to the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia issued the VAT Law under Royal Decree No. M/113 dated 21438/11/ H ("the VAT Law") and its corresponding Implementing Regulations were subsequently issued by the Board of Directors of the General Authority of Zakat and Tax ("GAZT") by Resolution No. 3839 dated 141438/12/ H ("the Implementing Regulations").

1.2. General Authority of Zakat & Tax ("GAZT")

GAZT, also referred to as "the Authority" herein, is the authority in charge of the implementation and administration of VAT (which may be referred to hereinafter as "the tax") in KSA, in addition to the registration and deregistration of taxable persons for VAT, the administration of VAT return filing and VAT refunds, and undertaking audits and field visits. GAZT also has the power to levy penalties for non-compliance with legal provisions relating to VAT.

1.3. What is Value Added Tax?

Value Added Tax ("VAT") is an indirect tax which is imposed on the importation and supply of goods and services at the production and distribution stages, with certain exceptions. VAT is imposed in more than 160 countries around the world.

VAT is a tax on consumption that is paid and collected at every stage of the supply chain, starting from when a manufacturer purchases raw materials until a retailer sells the end-product to a consumer. Persons registered for VAT will both:

- Collect VAT from their customers equal to a specified percentage of each eligible sale; and
- Pay VAT to their suppliers equal to a specified percentage of each eligible purchase.

When taxable persons sell a good or provide a service, a 5% VAT charge – assuming the standard rate applies – is assessed and added to the sales price. The taxable persons will account for that 5% that they have collected from all eligible sales separately from its revenue in order to later remit a portion of it to the Authority. The VAT taxable persons collect on their sales is called **Output VAT**.

That same will apply to purchase transactions by persons subject to VAT, in that VAT will be added at the rate of 5% to purchases of goods or services from other taxable persons (on the assumption that the standard rate applies to those supplies). The VAT a business pays to its suppliers is called **Input VAT**.

Further general information about VAT can be found in the KSA VAT Manual or at **vat.gov.sa**

1.4. This Guideline

This guideline is addressed to all natural persons and legal persons who carry on an economic activity and who will be required to register for VAT. The purpose of this guideline is to provide further clarifications and assist taxpayers in understanding the VAT treatment and implications in relation to Capital Assets.

This guideline represents GAZT's views on the application and fair treatment of the Unified VAT Agreement, the VAT Law and the Implementing Regulations as of the date of this guideline. This guide amounts to a guideline, and does not include, or purport to include, all the relevant provisions relating to Capital Assets from those or other applicable laws. 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.

For further advice on specific transactions you may apply for a ruling, or visit the official VAT website at (**vat.gov.sa**), which contains a wide range of tools and information that has been established as a reference to support persons subject to VAT, as well as visual guidance materials, all relevant information, and FAQs.

2. Definitions of the main terms used

Taxable Supplies are defined for VAT purposes as "Supplies on which Tax is charged in accordance with the provisions of the Agreement, whether at the standard rate or zero-rate, and for which associated Input Tax is deducted in accordance with the provisions of the Agreement"[(1)]. These include supplies on which the Customer accounts for the VAT under the Reverse Charge mechanism.

Taxable Person is a defined term for VAT purposes, both in the 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 this Agreement."[(2)]

and specifically in the context of "person" required to register in the KSA:

> "a Person who conducts an Economic Activity independently for generating income, and is registered for VAT in the Kingdom or who is required to register for VAT in the Kingdom under the Law or these Regulations."[(3)]

Capital Assets are defined for VAT purposes as:

> "Material and immaterial assets that form part of a business's assets allocated for long-term use as a business instrument or means of investment".[(4)]

Revenues on sales of Capital Assets is not a defined term for VAT purposes in the KSA. For the purpose of this guideline it is interpreted as the Value of any Supplies made during a period which constitute the Supply of a Capital Asset by way of its sale.

Input Tax is a defined term for VAT purposes, being:

> "Tax borne by a Taxable Person in relation to Goods or Services supplied to him or imported for the purpose of carrying on the Economic Activity".[(5)]

Deductible Input Tax is a defined term for VAT purposes, being:

> "Input Tax that may be deducted from Tax Due on supplies for each Tax Period in accordance with the Agreement and Local Law".[(6)]

Net Book Value is not a defined term for VAT purposes. For the purpose of this guideline it is interpreted as the carrying value of a Capital Assets as reported on the commercial books, according to the accounting principles generally accepted in the Kingdom.

Date of Registration is the date when the registration of a person who registers under the provisions of the KSA VAT Law and Implementing Regulations takes effect, or as otherwise specified on the Tax Registration certificate issued by the Authority.

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(1) Article 1, Definitions, Unified VAT Agreement
(2) Article 1, Definitions, Unified VAT Agreement
(3) Article 2, Taxable Persons required or eligible to register in the Kingdom, Implementing Regulations.
(4) Article 1, Definitions, Unified VAT Agreement
(5) Article 1, Definitions, Unified VAT Agreement
(6) Article 1, Definitions, Unified VAT Agreement

The **Purchase Value** of a Capital Asset is not a defined term for VAT purposes, but is referred to by VAT law for calculating adjustments to Deductible Input Tax. For the purpose of this guideline, it is the cost paid to the Supplier for the Asset itself, and other capitalized expenditure on that Asset. Section 4.2 of this guideline sets out further details.

The **Useful Life** of a Capital Asset is not a defined term for VAT purposes. For the purpose of this guideline it is interpreted to be the period over which a Capital Asset is expected to be available for use by a Taxable Person in its Economic Activities.

The **Remaining Useful Life** is a term defined for VAT purposes in connection with Capital Assets sold or used for non-Economic purposes before the end of the corresponding Adjustment Period. It is defined as:

"the Adjustment Period [determined in accordance with the second paragraph of this article] less the number of part or full years during which the Taxable Person has used the Capital Asset."[7]

Adjustment Period is outlined in the Implementing Regulations as:

"the period in which the Taxable Person shall adjust previously deducted Input Tax in relation to a Capital Asset in cases where the Taxable Person's Input Tax decreases or increases as a result of a change in the way the Taxable Person uses the Asset, or a change in the VAT status of such use".[8]

The **Initial Recovery Percentage** is a defined term for VAT purposes:

"is the recovery percentage determined in accordance with the intended use of the Goods at the time of purchase as calculated in accordance with [article 52 of the VAT Implementing Regulations]."[9]

The **Initial Input Tax Deduction** is not a defined term for VAT purposes. For the purposes of this guideline, it is considered to be the deduction of Input Tax made by a Taxable Person upon the purchase of a Capital Asset, calculated by applying the Initial Recovery Percentage to the total Input Tax incurred on that Capital Asset.

The **Input Tax potentially subject to adjustment** is a term used to determine the Input Tax already deducted in respect of a Capital Asset for any particular twelve month period. It has a defined calculation for VAT purposes[10]. Section 6.3.1 of this guideline sets out further details.

The **Actual Taxable Use Percentage** is not a defined term for VAT purposes. For the purpose of this guideline, it refers to the taxable usage of a Capital Asset during a twelve-month period, as a portion of total usage during that twelve-month period. This percentage is compared to the Initial Recovery Percentage to determine if an adjustment is required. Section 6.1 of this guideline sets out further details.

The **Permanent Taxable Usage** of Capital Assets is not a defined term for VAT purposes. For the purpose of this guideline, it refers to the portion of taxable usage arising following the permanent change of use from the sale or disposal of a Capital Asset. The permanent taxable usage of a taxable sale of a Capital Asset is 100%.

(7) Article 52(8), Capital Assets, Implementing Regulations
(8) Article 52(2), Capital Assets, Implementing Regulations
(9) Article 52(8), Capital Assets, Implementing Regulations
(10) Article 52(4), Capital Assets, Implementing Regulations

Tax Return represents the information and data specified for Tax purposes and submitted by a Taxable Person or a person authorised to act on his behalf for each Tax Period in accordance with the form prescribed by the Authority".[11]

Tax Period is a defined term for VAT purposes, being: "The period of time for which the Net Tax must be accounted[12]."

Nominal Supply is a defined term for VAT purposes in the KSA as "Anything that is considered a Supply in accordance with the cases provided for in Article 8 of [the Unified VAT] Agreement".[13]

(11) Article 62, Tax Returns, Implementing Regulations
(12) Article 1, Definitions, Unified VAT Agreement
(13) Article 1, Definitions, Unified VAT Agreement

3. Economic Activity and Registration

3.1. Who carries out an Economic Activity?

An economic activity may be carried out by natural persons or legal persons.

It will be presumed that a legal person that has a regular activity making supplies carries on an economic activity.

Natural persons may perform certain transactions as part of their economic activity, or as part of their private activities. There are therefore specific rules to determine whether or not a natural person falls within the scope of VAT.

Natural persons and legal persons who carry on an economic activity must register for the purposes of VAT if so required, and such persons must collect the VAT applicable to their activities, and pay the tax collected to the Authority.

3.2. Mandatory registration

Registration is mandatory for all persons whose annual turnover exceeds a certain threshold. If the total value of a person's taxable supplies during any 12 months exceeds SAR 375,000, (the "mandatory VAT registration threshold"), that person must register for VAT(14) on the supplies made, subject to the transitional provisions provided for in the Implementing Regulations.

The total value of Taxable Supplies includes all supplies of goods and services made by the person as supplier, which are subject to a 5% or a 0% rate of tax (where supplied by a VAT registered person). Taxable supplies do not include:

- Exempt supplies– such as exempt financial services or residential rental which qualifies for VAT exemption;
- Supplies taking place outside the scope of VAT in any GCC state; or
- Revenues on sales of Capital Assets – a Capital Asset is defined as an asset allocated for long-term business use(15).

Any supply of Capital Assets by way of sale shall not be taken into account to determine whether a person in business exceeds the Mandatory Registration Threshold or Voluntary Registration Threshold i.e. the total value of taxable supplies does not include the value of Capital Assets Supply.(16)

Example (1): Abdullah runs a goods transport business with annual turnover of SAR 300,000. During 2019, he also sells a refrigerated truck which he has used in his business activities for SAR 150,000. Abdullah's combined turnover is SAR 450,000 in 2019, but he is not required to register as he does not exceed the mandatory registration threshold once the sale of Capital Assets is removed.

(14) Article 3, Mandatory registration - Supplies exceed the Mandatory Registration Threshold, Implementing Regulations
(15) Article 1, Definitions, Unified VAT Agreement.
(16) Article 52(2), Calculating the Value of Supplies, Unified VAT Agreement

In certain circumstances, other tests will apply for mandatory registration:

- Persons who are not resident in the Kingdom of Saudi Arabia are required to pay the VAT in respect of supplies made or received by them in the Kingdom of Saudi Arabia and to register for VAT irrespective of the value of the supplies for which they are obliged to collect and pay the VAT(17).

- During a transitional period up to 1 January 2019, businesses will only be required to register where annual turnover exceeds SAR 1,000,000, and an application for registration must be submitted no later than 20 December 2018(18).

More information on mandatory registration for VAT is contained at **vat.gov.sa**

3.3. Optional VAT registration

Any Resident person in the Kingdom of Saudi Arabia who has taxable supplies or taxable expenses exceeding the "Optional VAT registration threshold" of SAR 187,500 in a twelve-month period may register for VAT on a voluntary basis(19).

Optional VAT registration may be desirable where a business wishes to claim VAT charged to it on their costs before invoices are raised or the occurrence of an onward supply.

More information on voluntary registration for VAT is contained at **vat.gov.sa**

(17) Article 5(1), Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom, Implementing Regulations.
(18) Article 79(9), Transitional provisions, Implementing Regulations
(19) Article 7, Voluntary Registration, Implementing Regulations

4. Key Concepts of Capital Assets

4.1. What are Capital Assets?

In line with the definition of Capital Assets in the Unified VAT Agreement, Capital Assets include the following:

- **Material and immaterial assets:**

Material (tangible) assets represent assets that have a physical form. Tangible assets include both fixed assets, such as machinery, buildings and land, and current assets, such as inventory.

Under accounting practice in the KSA, an immaterial (or intangible) asset is "an identifiable non-monetary asset without physical substance"[20].

Examples of intangible assets include: patented technology, computer software, databases, trade secrets, trademarks, trade dress, newspaper mastheads, internet domains, video and audiovisual material, mortgage servicing rights, licensing, royalty and standstill agreements, franchise agreements and marketing rights.

- **Assets that form part of a business's assets:**

Such Capital Assets should be exclusively or primarily purchased by a Taxable Person for business use i.e. performing an economic activity, and not be intended for private or personal use.

- **Assets allocated for long-term use as a business instrument or means of investment:**

The primary intention of holding the asset is to use it for long term period to conduct the economic activities of the business i.e. obtaining the predominant value through usage.

Generally, a Capital Asset is owned for its role in contributing to the business's ability to generate revenue from making supplies. However, a Capital Asset may not be directly used in making taxable supplies (for example, office equipment used in carrying out administrative functions).

Furthermore, it is expected that the benefits gained from the asset will extend beyond a time span of one year.

The following items are not considered capital assets:

- Stock in trade / inventory
- Raw materials held for use in manufacturing
- Consumables intended to be used in the course of the Economic Activity during the next twelve months
- Items of trivial value which are treated in the same manner as consumables (e.g. office stationery)
- Large assets held primarily for sale to customers in the ordinary course of business

(20) International Accounting Standard 38 - Intangible Assets

4.2 Purchase Value of a Capital Asset

Under accounting principles generally recognized in the Kingdom, the cost of a tangible fixed asset comprises[21]:

a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

For VAT purposes, GAZT considers that the Purchase Value of Capital Assets is the cost paid to the Supplier for the Asset itself, and other capitalized expenditure on that Asset. GAZT considers that this may include transportation costs, installation costs, and "any other Capital expenditure incurred on a Capital Asset already owned by the Taxable Person (to construct, enhance or improve)" the purchased Asset.[22]

If the costs are incurred at or near the time of purchase, they are recognized as additional expenditure acquiring the asset[23]. Capitalized costs incurred in respect of a Capital Asset in future periods are discussed in section 4.2.1 below.

Example (2): The Saudi Iron Factory purchased a new item machinery for SAR 500,000 (excluding VAT). It also incurred transportation expenses from Al Dammam to its factory in Riyadh of SAR 10,000 and installation costs of SAR 9,500 (excluding VAT). The Purchase Value of the Capital Asset will be recognized at SAR 519,500.

4.2.1. Improvements to Existing Capital Assets

Amounts incurred/expensed in respect of a tangible asset in periods after its acquisition are generally capitalized for accounting purposes, in case such expenses have commercial future benefits which will increase the estimated useful life of the asset[24].

For VAT purposes, Capital expenditure - to construct, enhance or improve Capital Assets - incurred on a Capital Asset already owned by the Taxable Person counts as expenditure or additional expenditure acquiring it.

In cases where this expenditure occurs in periods after the initial purchase of the Capital Asset, the additional Capital expenditure will be treated as a separate Capital Asset for adjustment purposes, and the Adjustment Period for such additional Capital expenditure shall commence on the date of completion of such works.[25]

(21) International Accounting Standard 16 - Property, Plant and Equipment
(22) Article 52(3), Capital Assets, Implementing Regulations
(23) Article 52(3), Capital Assets, Implementing Regulations
(24) International Accounting Standard 16 - Property, Plant and Equipment
(25) Article 52(3), Capital Assets, Implementing Regulations

4.3. Supply of a Capital Asset

The concept of a supply is very broad for VAT purposes, being: "Any form of supply of Goods or Services for consideration…[26]".

Most business transactions involve the provision of either goods or services (or both) from a supplier to a customer, and it should be presumed (unless clearly evidenced that no goods or services are supplied) that any transaction for consideration involves a supply of goods or services.

A Taxable Person may in some cases choose to sell a Capital Asset i.e. transfer the asset to another party for a consideration. In these cases, it needs to consider the VAT implications of the sale.

Where a Taxable Person has purchased or imported a Capital Asset in the course of its economic activities, the Taxable Person will be required to charge output VAT on the onward sale based on the consideration received, at the appropriate rate. Common examples are used plant and machinery, and used commercial vehicles "if those vehicles are not Restricted Motor Vehicles" – refer to section 4.3.1 of this guide).

VAT must also be charged on the Supply of Capital Assets in situations where the Taxable Person initially purchased those Capital Assets as part of its Economic Activity without a VAT charge on the purchase. For example:

- purchase from a non-VAT registered trader, or
- purchase taking place prior the VAT implementation in KSA.

The taxable Person when later acting as Supplier of those Capital Assets will be required to charge output VAT on the full selling price.

Example (3): Blue Sky Printing Company, a Saudi registered company, purchased a photocopying machine from a local supplier in 2015 for a price of SAR 18,000 with no VAT charged (prior to the introduction of VAT in the KSA),

In August 2019, Blue Sky sells this photocopying machine to Al Danah printing company in Jeddah for a price of SAR 9,000 (excluding VAT). This is a supply of goods taking place as part of Blue Sky's Economic Activities. Blue Sky must charge Al Danah VAT on the sale of the machine (calculated as SAR 450 - being 5% of the VAT-exclusive selling price), and report the output tax in field 1 of its VAT return (standard-rated sales).

(26) Article 1, Definitions, Unified VAT Agreement

4.3.1. Sales of Restricted Motor Vehicles

The Implementing Regulations defines a Restricted Motor Vehicle for the purpose of input VAT deduction.[27] Expenditure relating to a Restricted Motor Vehicle is deemed to be incurred outside of the Economic Activity, and any corresponding VAT incurred on its purchase is not eligible for deduction by the purchaser.

> In cases where a Restricted Motor Vehicle is purchased by a Taxable Person for (business and private) use without Input Tax deduction, the Restricted Motor Vehicle does not "form part of the Taxable Person's assets" for VAT purposes. Therefore, when that Restricted Motor Vehicle is later sold by that Taxable Person, his sale will not be considered to be made in the course of his Economic Activity, and VAT is not charged.
>
> "In cases where a Restricted Motor Vehicle is treated under the first paragraph of this article as not being purchased in the course of an Economic Activity, any Supply of that Restricted Motor Vehicle by the Taxable Person will not be considered to be made in the course of his Economic Activity".[28]

Example (4): Al Rashid Furniture Company, a Saudi registered company, purchased a vehicle in 2018 for SAR 28,000 plus VAT charged of SAR 1,400. The purpose of the vehicle is to transfer the staff to the showroom during the weekdays, but employees are able to use this vehicle for private use on Fridays and Saturdays. The vehicle is therefore a Restricted Motor Vehicle, for VAT purposes, and Al Rashid may not deduct any Input Tax on the purchase; as well as other related expenses such as, maintenance, repair and fuel.

In October 2020, Al Rashid sells this vehicle to a car dealer in Dammam for SAR 18,000. Al Rashid will not charge VAT on the supply (sale) of the vehicle, as the sale is not considered to be part of its economic activity.

Likewise, VAT should not apply to any other sales of Capital Assets which are not made as part of Economic Activity (for example, natural person registered for VAT, who sells his private computer equipment outside of his business activity).

(27) Article 52(3), Capital Assets, Implementing Regulations
(28) Article 52(3), Capital Assets, Implementing Regulations

4.4. Disposal of Capital Assets

In addition to supplies of goods or services made for consideration, the VAT law deems some events, which do not involve supplies to third parties for consideration, to be supplies for VAT purposes. These are called Nominal Supplies, and are outlined in the Unified VAT Agreement:

> "A Taxable Person shall be deemed to have made a Supply of Goods when disposing of Goods that form part of its assets in any of the following cases:
>
> a) disposal of Goods, for purposes other than Economic Activity, with or without a Consideration; …
>
> d) supplying Goods without Consideration…"[29]

Therefore, if a Taxable Person holds Capital Assets (and that Person had deducted Input Tax on their original purchase), a Nominal Supply will arise when these are disposed of in a context other than a sale.

Provided that the attributed input tax has been deducted by the Taxable Person in relation to the Capital Asset concerned, the standard value of a nominal supply in case of disposing a Capital Asset (supply with no consideration) is the purchase value or cost of the Capital Asset.

However, if the purchase value or cost cannot be determined, then the fair market value at the time of disposal shall apply[30].

VAT is calculated at 5% of the appropriate value and is reported as Output Tax in the VAT return (together with the value of the corresponding nominal supply).

(29) Article 8, Nominal Supplies, Unified VAT Agreement
(30) Article 26(4), Value of Supply of Goods and Services, Unified VAT Agreement. The fair market value, where applicable, is determined in accordance with Article 38, Fair Market Value, Implementing Regulations

5. Input VAT Deduction

5.1. General Provisions

A VAT registered person may deduct Input VAT charged on goods and services it purchases or receives in the course of carrying on its Economic Activity. Input VAT may be deducted on:

- VAT charged by a VAT-registered supplier in the KSA;
- VAT self-accounted by the VAT-registered person under the Reverse Charge Mechanism; or
- Import VAT paid to Saudi Customs on imports of goods into the Kingdom.

As a general rule, input VAT which is related to the taxpayer's VAT exempted activities is not deductible as input VAT.

In addition, input VAT may not be deducted on any costs incurred that do not relate to the Economic Activity of the taxable person (including some blocked expenditure types such as entertainment, sporting or cultural services, catering service, and restricted motor vehicles),(31)or on any costs which relate to making exempt supplies. This input VAT is a credit entered on the VAT return which is offset against the VAT charged on supplies (output VAT) made during that period.

Input VAT may only be deducted where the Taxable Person holds a tax invoice, or customs documents showing the amount of tax due, or any other document showing the amount of input tax paid or due, subject to the approval of the Authority.(32)

5.2. Proportional deduction relating to input VAT

VAT incurred which relates to a taxpayer's VAT exempt activities, such as exempt financial services or residential rental, is not deductible as Input VAT. A person making both taxable and exempted supplies, can only deduct the Input VAT related to the taxable supplies.

If a taxable person incurs general costs or expenses (overheads) in the making of taxable supplies, and others that are exempt from VAT, he must in that event split the costs and expenses precisely so as to specify those costs that relate to the taxable supplies. The input tax will be determined in accordance with the following rules(33):

Input VAT **directly attributed** to taxpayer's taxable sales	**Deduct in full**
Input VAT **directly attributed** to taxpayer's exempt sales	**No deduction**
Overheads and all other input VAT that cannot be directly attributed	**Partial deduction based on apportionment**

(31) A detailed list of the blocked expenditures is listed under Article 50 of the Implementing Regulations.
(32) Article 49(7), Input Tax Deduction, Implementing Regulations.
(33) Article 51, Proportional deduction of Input Tax, Implementing Regulations

The overhead costs/expenses incurred by the Taxable Person for making both taxable and exempted supplies must be apportioned to most accurately reflect the use of those costs in the **taxable portion** of the taxpayer's activities.

A prescribed default method of proportional deduction is calculated on the values of supplies made in the year, using of the following fraction:

$$\frac{\text{The value of } \textbf{Taxable Supplies} \text{ made by the Taxable Person in the last calendar year}}{\text{The total value of } \textbf{Taxable Supplies} \text{ and } \textbf{Exempt Supplies} \text{ made by the Taxable Person during the last calendar year}}$$

The fraction for the default method does not include supplies of Capital Assets made by the taxpayer, as these distort the use of input VAT.

Alternative attribution methods, using other calculation approaches than the value of supplies, may be approved with GAZT in cases where these better reflect the actual use of VAT incurred. Further information about deduction of VAT and proportional VAT recovery is provided in the Input Tax deduction guideline.

5.3. Principles for Deduction of Input Tax on Capital Assets (upon initial purchase)

Deduction of Input Tax on Capital Assets is determined based on the Initial Recovery Percentage: the purchaser's intended use of the Asset at the date the Capital Assets are purchased.

> "At the time a Taxable Person acquires a Capital Asset, Input Tax shall initially be deducted in accordance with the intended use of the Goods."[34]

If the Taxable Person intends to use the Capital Asset for only taxable purposes, this will allow a full deduction of Input Tax borne for the Tax Period in which the purchase was made. For Capital Assets purchased from a KSA supplier, this deduction is recorded in field 7 of the Tax Return for "standard rated domestic purchases".

If the Asset will be used partly for making taxable supplies and partly for other purposes i.e. exempt supplies or non-economic activities, only the proportion of input tax relating to taxable supplies can be deducted.[35]

The use of the Capital Assets must be monitored annually over the Adjustment Period, which is designed as a representation of the useful life of the Asset for VAT purposes. Where the actual usage changes from the Initial Recovery Percentage, the Taxable Person is required to adjust previously deducted Input Tax by way of an adjustment. These changes should be made, as applicable, each twelve months. The requirements for adjustment are discussed in Section 6 of this guideline.

(34) Article 52(3), Capital Assets, Implementing Regulations
(35) Article 46, Proportional Deduction, Unified VAT Agreement

Example (5): A family business has an investment division carrying on partly exempt financing activities, a retail division and a travel division offering goods and services to Customers. The business purchases new office computers in December 2020, to be used exclusively in the office of the travel division, costing SAR 420,000 (including VAT of SAR 20,000). The travel division's activities are "fully taxable" for VAT deduction purposes – i.e. involve making entirely taxable supplies.

As the business intends the Assets to be put to long-term use which is attributed to Taxable Supplies of travel, the Input VAT of SAR 20,000 is deducted in full in the Tax Period ending 31 December 2020.

During March 2021, the business decides to purchase the same type of computers for use in its investment division. It makes a separate purchase of additional equipment from the same supplier for SAR 210,000 (including VAT of SAR 10,000). Based on the most recent data of taxable and exempt supplies, the investment division determines that these will be used for 40% taxable use. The business deducts SAR 4,000 of Input VAT, being 40% of the SAR 10,000 incurred on the computers, in the Tax Period ending 31 March 2021.

6. Capital Assets Adjustments

The VAT Capital Assets rules monitor the original input tax deduction in relation to Capital Assets by partly exempt businesses where assets are used for both taxable and non-taxable purposes.

Throughout the life of the Capital Asset, when the Actual Taxable Usage Percentage (taxable use as a proportion of total use) of the Capital asset varies from Initial Recovery Percentage for that Capital Asset, adjustments to Deductible Input Tax are made to reflect the actual use of the asset over that period.

An adjustment will be required under the Capital Assets rules in any year in which the actual use of the asset differs to the initial deduction of Input Tax. The adjustment may either result in extra input VAT being recovered, or in a repayment of input VAT by the Taxable Person.(36)

Note: If the portion of taxable use during the twelve month period is the same as the original intention, no adjustment is required for that period. (37)

6.1. Actual Taxable Use Percentage

Adjustments are only required in cases where:

> "… the Taxable Person's Input Tax decreases or increases as a result of a change in the way the Taxable Person uses the Asset, or a change in the VAT status of such use."(38)

This is measured by the Actual Taxable Use Percentage of the Capital Asset during any year (or Adjustment Period). The "taxable use" refers to the portion of the use of the asset for "taxable" purposes (those giving rise to Input Tax deduction) during that year as a fraction of the total use of the asset in that year.

ACTUAL TAXABLE USE PERCENTAGE =

$$\frac{\textbf{Use of Asset for taxable purposes}}{\textbf{Use of Asset for taxable and exempt purposes}}$$

If a difference in the percentage of actual use is detected from the initial percentage of the intended usage, it indicates that the taxable person must adjust the deducted input tax.

The Taxable Person is not required to measure if a Capital Asset is fully utilized against its capacity, or adjust for any periods where the Capital Asset is intended for taxable use but is not so used.

Example (6): Falcon Limited Company (a KSA operating registered company) acquires a production machinery for exclusive use in its taxable activities. It deducts input tax in full upon the purchase.

The machine has a total operational capacity of 12 hours each day, but Falcon does not have as many orders as expected and is unable to keep it fully operational. In year 1 the company calculates the usage of the machinery at 50% of capacity. In years 2 and 3, taxable usage increases to 75% of capacity. In year 4, it drops to 20% of capacity.

(36) Article 47, Adjustment of Deductible Input Tax, Unified VAT Agreement
(37) Article 52(6), Capital Assets, Implementing Regulations
(38) Article 52(1), Capital Assets, Implementing Regulations

In all years, the machine remains intended for full (100%) usage in Falcon's taxable activities, and is not made available for exempt or non-economic use. Therefore, no adjustments are required to reflect actual usage in years1-4.

6.2. Adjustment Periods

The input tax deduction for Capital Assets must be monitored over a specified Adjustment Period for that Capital Asset, with adjustments made on an annual basis in cases where the actual use (measured by the Actual Taxable Use Percentage) changes from the original intended use (measured by the Initial Recovery Percentage).

The length of the Adjustment Period (in years) depends on the type of asset.

The Adjustment Period for immovable Capital Assets which are permanently attached to land or real estate is 10 years, and the Adjustment Period for movable tangible assets and intangible assets is 6 years. This period commences from the date of purchase of the Capital Asset by the Taxable Person(39).

Adjustments to recovery are made in respect of twelve months periods, the first of which begins at the start of the Taxable Period in which the Capital Asset was purchased(40) (or – in respect of improvements to existing Capital Assets – the Taxable Period in which the improvement work was completed).

Should the useful life of the Capital Asset (determined in accordance with the accounting practice of the Taxable Person) be shorter than the otherwise corresponding Adjustment Period, the Adjustment Period shall instead be the life of the Capital Asset, with any part years counting as one year(41).

Example (7): A KSA resident and registered factory acquires a new storage facility on 20 July 2020: at a cost of SAR 100,000, to be used for storage of volatile chemical products. Due to the specific nature of the products being stored, the storage facility is only able to operate for five years before destruction – this is therefore its useful life for accounting purposes. The storage facility in this case has a shorter life than the standard Adjustment Period specified in Regulations for immovable Capital Assets (which is 10 years). Therefore, the updated Adjustment Period for this warehouse will be five years (to 20 July 2025). This is split into five twelve month periods, starting from the commencement of the Tax Period in which the purchase occurred:

Year 1	1 July 2020 – 30 June 2021
Year 2	1 July 2021 – 30 June 2022
Year 3	1 July 2022 – 30 June 2023
Year 4	1 July 2023 – 30 June 2024
Year 5	1 July 2024 – 30 June 2025

Capital expenditure incurred to construct, enhance or improve a Capital Asset already owned by the Taxable Person is considered to be expenditure on a new Capital Asset, or additional expenditure acquiring the original Capital Asset. In either case, the Adjustment Period (or additional adjustment period) for such expenditure shall commence on the date of completion of such works.(42)

(39) Article 52(2), Capital Assets, Implementing Regulations
(40) Article 52(5), Capital Assets, Implementing Regulations
(41) Article 52(2), Capital Assets, Implementing Regulations
(42) Article 52(3), Capital Assets, Implementing Regulations

If capitalized expenditure is incurred after the period in which purchase occurs, it is expected that expenditure is treated as additional capital expenditure which has a different Useful Life.

Example (8): Black Star Production Company, a KSA registered company, has acquired new equipment for its bottled water production line on 7 March 2020. Costs incurred were as follows:

- Cost of purchase (includes Customs duties) = SAR 2,000,000
- Handling fees = SAR 500,000
- Installation fees = SAR 400,000

The total capitalized purchase cost is SAR 2,900,000. VAT of SAR 145,000 is paid (including both VAT paid on the import, and to suppliers on subsequent fees).

The Adjustment Period for this acquired Capital Assets is 6 years, with the first twelve month period commencing on 1 March 2020 (Black Star has a monthly Tax Period).

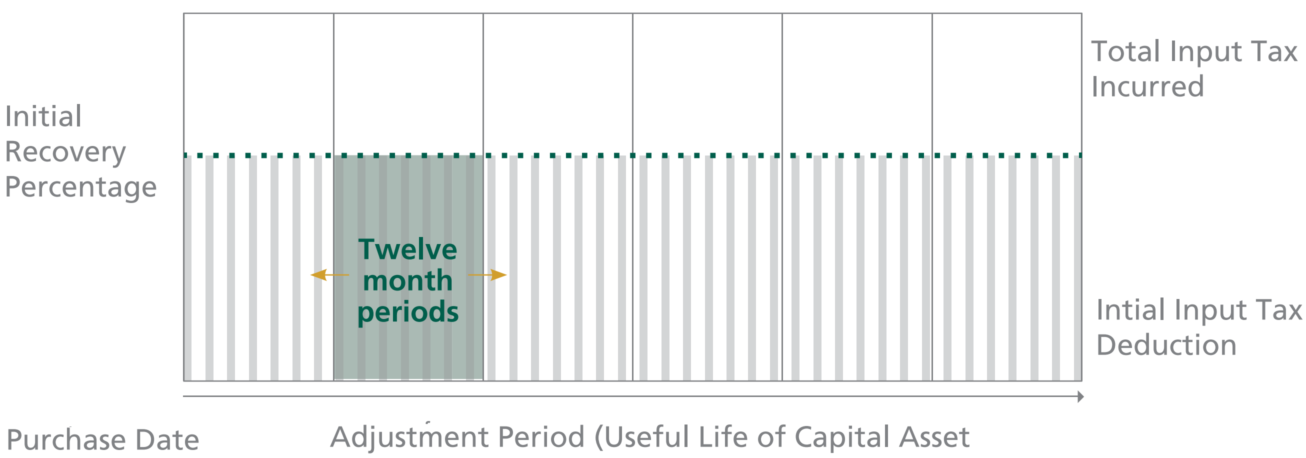
During May 2021, Black Star is required to undertake a major upgrade to the equipment to increase the production capacity. The expenditure is SAR 700,000 (excluding VAT). The update process lasts for 3 weeks and ends on 23 May 2021.

Such expenditure will be recognized as additional expenditures for the Capital Assets, but with a separate Adjustment Period. A new Adjustment Period of 6 years will apply in respect of the SAR 700,000 of upgrade expenditure, commencing the date of 23 May 2021.

6.3. Adjustment of the Value of Input Tax Deducted

The initial recovery is based on the intended use (the Initial Recovery Percentage) at the time of acquiring the asset[43]. For the rest of the Adjustment Period, where necessary, the Taxable Person must adjust each year for actual usage.

The diagram below shows a Capital Asset with an Adjustment Period of six years. The initial Input Tax deduction upon purchase is based on applying the Initial Recovery Percentage to the total Input Tax incurred on the purchase (or improvement) of the Capital Asset. The actual use will be monitored over six separate twelve-month periods (a separate diagram shows the calculation of an adjustment for a single twelve-month period).



(43) Article 52(3), Capital Assets, Implementing Regulations

6.3.1. Input Tax potentially subject to adjustment

The formula for calculating the amount of input tax potentially subject to adjustment is as follows[44]:

$$\frac{\text{Initial Input Tax Deduction}}{\text{Adjustment Period}}$$

Where:

- Initial Input Tax Deduction is calculated based on the Taxable Person's intended use of the asset at the date of purchase (Initial Recovery Percentage) multiplied by the Total Input Tax incurred in respect of that Capital Asset, and
- Adjustment Period is calculated based on the related rules discussed in 6.2 of this guideline.

6.3.2. Calculation of the Adjustment for each twelve month period

The Taxable Person must make an adjustment to Input Tax, in cases where actual use of the Capital Asset during a year differs to the Initial Recovery Percentage. This may result in extra input VAT being deducted, or in a reduction of deductible VAT by the Taxable Person.

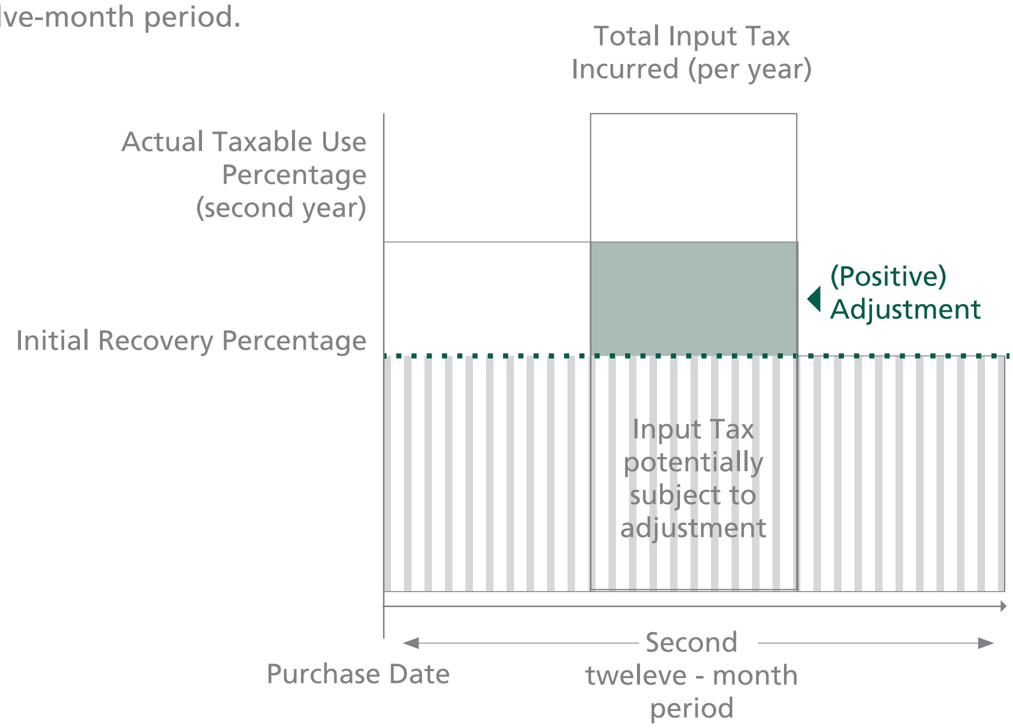
The Taxable Person shall make the adjustment to Input Tax in the Tax Return for the last Tax Period which falls in the twelve month period[45], by adjusting the corresponding VAT-exclusive amount (in the second column of field 7) in the Tax Return.

The adjustment is calculated by calculating the correct recovery for that twelve month period based on actual use, and subtracting the amount potentially subject to adjustment (as calculated in accordance with section 6.3.1).

Correct deductible tax relating to twelve month period	$\frac{\text{(Total VAT charged on purchase of Capital Asset x Actual Taxable Use Percentage)}}{\text{Adjustment Period}}$
Less: amount of input tax potentially subject to adjustment	$\frac{\text{Initial Input Tax Deduction}}{\text{Adjustment Period}}$
Adjustment to input tax for twelve month period	Positive amount: increase to Deductible Input Tax Negative amount: decrease to Deductible Input Tax

(44) Article 52(4), Capital Assets, Implementing Regulations
(45) Article 52(5), Capital Assets, Implementing Regulations

The diagram below shows the second twelve-month period of the Capital Asset from the earlier diagram. In this twelve-month period, the Actual Taxable Use Percentage is higher than the Initial Recovery Percentage. This results in a Positive Adjustment to the Deductible Input Tax for that twelve-month period.



Example (9): The Red Sea Development Company, a KSA VAT registered company, acquired an office building on 1 April 2019 for SAR 7,000,000 plus SAR 350,000 VAT. The company is carrying on partly exempt activities, and estimated the taxable use at 45% upon purchase.

As the building is an immovable asset, the Adjustment Period is ten years, with the first twelve month period commencing on 1 April 2019. The Initial Input Tax Deduction upon the acquisition 2019 will be calculated as SAR 157,500 (350,000 X 45%). This is included in the Tax Return for the quarter ended 30 June 2019.

Input tax incurred on purchase of building	350,000
Initial Recovery Percentage	45%
Input tax recovered at time of purchase	**157,500**

The Input Tax relating to each year, and the Input Tax potentially subject to adjustment for each year is calculated as:

Input tax incurred on purchase of building	350,000
Input tax recovered at time of purchase	157,500
Adjustment periods	10
Total Input tax incurred per Year	**35,000**
Input Tax potentially subject to adjustment	**15,750**

Based on data of taxable and exempt supplies made, the Actual Taxable Use Percentages in the first three twelve-month periods were as follows:

Twelve month period	Taxable Use
1 April 2019 – 31 March 2020	45%
1 April 2020 – 31 March 2021	40%
1 April 2021 – 31 March 2022	58%

During the first twelve-month period, the actual taxable usage (45%) is unchanged from the Initial Recovery Percentage. Therefore, no adjustment is required in the quarter ended 31 March 2020.

During the second twelve-month period, the Actual Taxable Use Percentage decreases. A decreasing adjustment to input tax deduction is calculated as SAR 1,750. This adjustment is made in the quarter ended 31 March 2021.

Total input tax incurred (per year)	35,000
Actual Taxable Use Percentage in twelve months to 31 March 2021	40%
Input tax properly deductible for twelve months to 31 March 2021	**14,000**
Input Tax potentially subject to adjustment	15,750
Adjustment – decreasing Deductible Tax in quarter ended 31 March 2021	**1,750**

During the third twelve-month period, the Actual Taxable Use Percentage increases to more than the Initial Recovery Percentage. An increasing adjustment to input tax deduction is calculated as SAR 4,550. This adjustment is made in the quarter ended 31 March 2022.

Total input tax incurred (per year)	35,000
Actual Taxable Use Percentage in twelve months to 31 March 2022	58%
Input tax properly deductible for twelve months to 31 March 2022	**20,300**
Input Tax potentially subject to adjustment	15,750
Adjustment – increasing Deductible Tax in quarter ended 31 March 2022	**4,550**

The Red Sea Development Company must continue monitoring the Actual Taxable Use Percentage, and making adjustments where necessary, for all remaining twelve-month periods until the end of the Adjustment Period of the Capital Asset.

6.4. Capital Assets with unchanged usage during a twelve month period

In cases where the Actual Taxable Use Percentage of the Asset is the same as the Initial Recovery Percentage, no adjustment is required for that twelve month period[46]. The Taxable Person should retain a record of the comparison of use during that twelve month period with the business records, and must continue reviewing actual use at the end of each twelve-month period in the remaining Adjustment Period.

Example (10): Seasons Travel Agent Company, a KSA registered company, purchased new computers to be used in its fully taxable activities in February 2020. At the date of purchase, Seasons Company is eligible to deduct the input VAT incurred in full.

At the end of year 1, Seasons Company reviews the actual use of these computers and confirms that there is no change in the original use – the computers are used for wholly (100%) Taxable use as intended. Therefore, no adjustment is required for this period.

6.5. Permanent Adjustment: Sale of Asset

Where a Capital Asset is sold within the Adjustment Period, a permanent adjustment must be made to reflect the permanent change of use.

"In cases where there is a permanent change in the use of a Capital Asset due to the sale or disposal of the Capital Asset by a Taxable Person, the Taxable Person must adjust the Input Tax deduction for the remainder of the Adjustment Period for that Capital Asset in the Tax Period in which it is sold." [47]

The permanent adjustment is applied to all the remaining twelve-month periods making up the Adjustment Period (the Remaining Useful Life) for that asset. Assuming the sale is a taxable sale, then the Taxable Person should base the adjustment on the Permanent Taxable Usage for the remaining years of the Adjustment Period being 100%.

The permanent adjustment is calculated as:

$$\frac{\text{VAT incurred on Purchase value of Capital Asset} \times (\text{Permanent Taxable Usage less Initial Recovery Percentage}) \times \text{Remaining Useful Life}}{\text{Adjustment Period}}$$

In cases where a Capital Asset is sold and a permanent use adjustment is made during any twelve month period, there is no requirement to perform a separate adjustment for the use of that Capital Asset in the time up to its sale.

Example (11): On 1 January 2021, Horizon Financial Lease Company acquires a new server for SAR 240,000 plus VAT of SAR 12,000. Horizon calculates the taxable usage of the server at 50%, therefore, SAR 6,000 is deducted on the purchase in the Tax Period ending 31 January 2021. The Adjustment Period is the standard 6 years for a moveable asset.

During the first three twelve month periods (up to 31 December 2023), Horizon monitors usage of the asset and makes corresponding adjustments when actual taxable usage differs from the 50% intended upon purchase.

(46) Article 52(6), Capital Assets, Implementing Regulations
(47) Article 52(7), Capital Assets, Implementing Regulations

The server is sold on 4 May 2024 for SAR 150,000 plus VAT. The Capital Asset has been used for a taxable supply and no longer forms part of Horizon's assets. Therefore, a permanent adjustment must be made in the Tax Period ending 31 May 2024 to reflect the permanent change to taxable use for the remaining useful life. The year in which the Capital Asset is sold is counted as a full year of Remaining Useful Life.

The value of adjustment is calculated as:

VAT incurred on Purchase value of Capital Asset	SAR 12,000
Permanent Taxable Usage less Initial Recovery Percentage	100% (taxable sale) – 50% = 50%
Remaining Years of Useful Life	3 years
Adjustment Period	6 years
Adjustment	(12,000 x 50% x 3) / 6 = SAR 3,000

Note that the asset is no longer owned at the completion of the fourth twelve-month period (ending 31 December 2024). Therefore, any use during the 2024 before the sale is disregarded. As the permanent adjustment has been made, no other adjustment to Input Tax is required for the quarter ending 31 December 2024.

No adjustment to the Input Tax deducted for the remainder of the Adjustment Period is needed if the Capital Asset is destroyed or stolen or ends its useful life earlier than accounted for[48].

6.6. Asset ceasing to be used for Taxable Purposes

If, during the Adjustment Period, a Capital Asset permanently ceases to be used for the Economic Activities of a Taxable Person, then no further adjustment to Deductible Input Tax is required for the remaining twelve-month periods relating to that Capital Asset.

However, the Taxable Person is treated as having disposed of the asset outside of the Economic Activities, therefore making a Nominal Supply[49]. This Nominal Supply, and the corresponding Output Tax, must be reported in the Tax Period in which the Asset ceases to be used. The value of such Nominal Supply shall be calculated using the following formula:[50]

(48) Article 52(7), Capital Assets, Implementing Regulations
(49) Article 8(1)(a), Nominal Supplies, Unified VAT Agreement
(50) Article 52(8), Capital Assets, Implementing Regulations

$$\frac{\text{(Purchase value of Capital Asset} \times \text{Initial Recovery Percentage} \times \text{Remaining Useful Life)}}{\text{Adjustment Period}}$$

Where:

- Purchase value of Capital Asset is determined in accordance with section 4.2 of this guideline;
- Initial Recovery Percentage is the recovery percentage determined in accordance with the intended use of the Goods at the time of purchase;
- Remaining Useful Life is the Adjustment Period less the number of part or full years during which the Taxable Person has used the Capital Asset; and
- Adjustment Period is determined in accordance with section 6.2 of this guideline.

6.6.1. Cases in which a Nominal Supply does not arise

A Nominal Supply is not made if Input Tax was not deducted on the purchase or import of the Capital Asset.

If a Capital Asset is not physically used (for economic or private purposes) during any particular period, but remains available for use in the Taxable Person's Economic Activities, a Nominal Supply is not made.

A Nominal Supply is not made if the Taxable Person sells the Capital Asset for consideration (this is a Taxable Supply).

A Nominal Supply is not made if the Capital Asset is stolen, or is required to be destroyed as a consequence of the Taxable Person's Economic Activities.

7. Input Tax Deduction for Capital Assets held upon VAT Registration

Under specified conditions, Taxable Persons are entitled to deduct Input Tax incurred in relation to certain goods or services acquired prior to the date of the Taxable Person's effective registration for VAT. This will be relevant in practice for businesses who registered for VAT after 1 January 2018, but incurred VAT in respect of goods and services (including Capital Assets) before their registration date. This section details the rules for Capital Assets held at the registration date.

7.1. Material Capital Assets (Goods)

If a Person incurred VAT on the purchase or import of a tangible Capital Asset, that Person becomes entitled to deduct Input Tax upon the effective date of VAT registration, subject to the following criteria:

- The Person was charged KSA VAT on the Supply of that tangible Capital Asset to him, or incurred VAT upon the import of that Capital Asset into the KSA.
- The Capital Asset is to be used in the course of carrying on an economic activity which involves making taxable supplies(51) (in accordance with the general provisions for Input VAT Deduction outlined in section 5 of this guideline). If the VAT incurred on the Capital Asset cannot be wholly attributed to a taxable use, an apportionment is required.
- The Capital Asset has not been supplied onwards by the Taxable Person, or used in full by the Taxable Person, prior to the registration date.
- The Capital Asset has a positive book value at the date of registration.
- The Capital Asset is not restricted from recovery as a blocked expenditure type(52).

7.2. Immaterial Capital Assets (Services)

If a Person incurred VAT on the purchase of intangible Capital Assets, that Person becomes entitled to deduct Input Tax upon the effective date of VAT registration, subject to the following criteria:

- The Person was charged KSA VAT on the Supply of that intangible Capital Asset to him.
- The Capital Asset is to be used in the course of carrying on an economic activity which involves making taxable supplies (as outlined for tangible Capital Assets in 7.1 above).
- The intangible Capital Asset has not been supplied onwards by the Taxable Person, or used in full by the Taxable Person, prior to the registration date.
- The Capital Asset was supplied to that Person during the six month period before the effective date of registration
- The Capital Asset is not restricted from recovery as a blocked expenditure type.

(51) Taxable supplies and other supplies giving a right to deduction on related costs as set out in article 49(1), Input Tax deduction, Implementing Regulations
(52) Article 50, Goods and services deemed to be received outside of Economic Activity, Implementing Regulations

7.3. Calculation of Deduction

The deduction is made in the Tax Return filed in respect of the Taxable Person's first Tax Period, in which the effective date of registration occurs. VAT originally incurred on a domestic purchase is included in field 7, and VAT originally paid on an import is included in field 8 of the VAT return.

The deduction for Capital Assets held upon registration is subject to a maximum value, determined in line with the Net Book Value of the Capital Asset.

"In cases where Capital Assets are held at the date of registration, the maximum deductible Input Tax permitted shall be calculated as if the net book value, determined in accordance with the accounting practice of the Taxable Person, were the Consideration for the Supply."[(53)]

The Net Book Value of a Capital Asset is calculated as follows:

Net Book Value = (Purchase Value of the Asset) less (Accumulated Depreciation)

Accumulated Depreciation is calculated in accordance with generally accepted accounting practice in the KSA. A Taxable Person is not generally required to maintain a record of the Net Book Value of a Capital Asset for VAT purposes – this is only used in cases where Capital Assets are owned at the time of registration.

Example (12): Real Sands Company, a KSA company, purchased an extension to its property located in Al Khobar for SAR 105,000 in January 2019 (including VAT). Under standard accounting practices, Real Sands applies depreciation to the extension on a straight-line basis by SAR 10,500 a year. Real Sands Company wishes to calculate the net book value of the property when it registers for VAT on 1 January 2022.

Net Book Value will be SAR 73,500: calculated as the purchase price (105,000) less: - 10,500 (year 1 depreciation) - 10,500 (year 2 depreciation) - 10,500 (year 3 depreciation). The Net Book Value at the registration date is SAR 73,500. The relevant VAT fraction is calculated as (5 / 105) x SAR 73,500 – which is SAR 3,500. This is the maximum input tax deduction available for Real Sands Company in respect of that Capital Asset (as an item purchased prior to VAT registration).

Real Sands Company meets the other criteria for deduction of VAT on tangible Capital Assets held at the registration date. It includes a deduction of SAR 3,500 in field 7 of its first VAT return (for the quarter ended 31 March 2022).

(53) Article 49(4), Input Tax Deduction, Implementing Regulations

8. VAT obligations of the Taxable Person

In your capacity as a taxable person, you must evaluate your tax obligation and also comply with the conditions and obligations relating to VAT. This includes registering for VAT as necessary, and exactly calculating the net amount of VAT payable, and paying the tax at the time due, as well as keeping all necessary records and cooperating with officials of the Authority on demand.

If you are not sure of your obligations, you must contact the Authority through its website at vat.gov.sa or by other means of communication, and you may also seek external consultation through a qualified consultant. There follows below a review of the most important tax obligations provided for in the Law and the Implementing Regulations.

8.1. Issuing tax invoices

A supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any other legal person, or issue a simplified invoice in the event that the Value of the supply is less than SAR 1,000, or for supplies made to the end consumer, by no later than fifteen 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, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged[54]. If different rates have been applied to supplies, the Value of each supply at each rate must be separately specified, as well as the VAT applicable to each rate. A tax invoice may be issued in the form of a commercial document, provided that document contains all of the requirements for the issuing of tax invoices as set out in the Implementing Regulations to the Law[55].

Note that a Tax Invoice for a Nominal Supply (for example, resulting from the provision of goods or services for no Consideration) must be kept with the person's business records, but must not be issued to the recipient of the goods or services.

Further information on the requirements for tax invoicing can be found in the Taxpayer guideline on Invoicing and Records.

8.2. Filing VAT Returns

Each VAT registered person, or the person authorised to act on his behalf, must file a VAT return with GAZT for each monthly or quarterly tax period. The VAT return is considered the taxable person's self-assessment of tax due for that period.

Monthly VAT periods are mandatory for taxable persons with annual revenues 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.

More information on filing of VAT returns is provided in a separate guideline.

If the VAT return results in VAT due to the taxpayer, or if the taxpayer has a credit balance for any reason a request for a refund of this VAT may be made after the filing of the VAT return, or at any later time during the next five years by filing a request for a refund to the Authority. GAZT will

(54) For more details on the requirements for issuing tax invoices, refer to the published Invoicing & Records guideline and Article 53, Tax Invoices, Implementing Regulations
(55) Article 53, Tax Invoices, Implementing Regulations

review these requests and will pay the amount due on refund requests that have been approved, directly to the taxpayer[56].

8.3. 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 (provided the criteria to do so are met). In all cases, records must be made available to GAZT on request.

All records must be kept for at least the standard retention period of 6 years. That minimum period for retention 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 immovable Capital Assets.[57]

8.4. Certificate of registration within the VAT system

A resident person who is subject to VAT and registered with the Authority in the VAT system must display a certificate to the effect that he has been registered in the VAT system in a place visible to the public at his main place of business and at all his branches.

In the event of a contravention, the person in breach will be liable to the penalties provided for in the Law.

8.5. Correcting past errors

If a taxable person becomes aware of an error or an incorrect amount in a filed VAT Return, or of any other non-compliance with the VAT obligation, he should notify GAZT and correct the error by amending the tax return. Errors resulting in a net understatement of VAT (exceeding SAR 5,000) must be made known to GAZT within 20 days of detecting the error or incorrect amount, and the previous return must be amended. In connection with minor errors resulting in a difference of less than SAR 5,000, the error may be corrected by amending the net tax in the subsequent tax return[58].

Further information on correcting errors can be found through **vat.gov.sa**

(56) Article 69, Refund of overpaid Tax, Implementing Regulations
(57) Article 66, Records, Implementing Regulations, and Article 52, Capital Assets, Implementing Regulations
(58) Article 63, Correction of Returns, Implementing Regulations.

9. Penalties

The Authority may impose penalties or fines on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations.(59)

Description of offence	Associated fine
Submitting false documents with the intent of evading the payment of the VAT due or to reducing its value	At least the amount of the VAT due Up to three times the value of the goods or services
Moving goods in or out of the Kingdom **without paying the VAT due**	At least the amount of the VAT due Up to three times the value of the goods or service
Failure to register for the VAT in the allotted timeframe	SAR 10,000
Filing incorrect tax return, amend a tax return after submission or filing any VAT document with the Authority resulting in a lower amount due	Equal to 50% of the value of the difference between the calculated Tax and Tax due
Failure to file VAT return in time	5%-25% of the VAT in respect of which the return should have been filed
Failure to pay the VAT in time	5% of the VAT due for each month or part thereof
Collecting VAT **without being registered**	Up to SAR 100,000
Failure to **maintain books and records** as stipulated in the regulations	Up to SAR 50,000
Preventing GAZT employees from performing their duties	Up to SAR 50,000
Violating of any other provision of the VAT **regulations or the VAT law**	Up to SAR 50,000

In all cases, if a violation is repeated within three years from the date of issuing the final decision of the penalty, the Authority may double the fine for the second offense.

The level of the penalty or fine imposed is set by GAZT with regard to the taxpayer's behaviour and compliance record (including taxpayers meeting their requirements to notify GAZT of any errors and provide co-operation to rectify mistakes).

(59) Chapter Sixteen: Articles (39), (40), (41), (42), (43), (44), (45), and (47), Tax Evasion and Penalties, VAT Law.

10. Applying for the issue of rulings (interpretative decisions)

In the event that you are not sure about the manner of application of VAT to a particular activity or particular transaction that you are doing or intend to do, after referring to the relevant provisions and the relevant guideline, you may submit an application to the Authority to obtain a ruling. The application should set out the full facts relating to the particular activity or particular transaction on which you are asking the Authority to express its view.

A reply to a request for a ruling may be either:

- Public, in which event the Authority will publish details of the ruling, but without referring to any private particulars relating to the individual taxpayer, or
- Private, in which case the Authority will not publish the ruling.

Neither a public nor a private ruling issued by the Authority will be treated as binding on it or upon the taxpayer in connection with any transaction that he performs, and it shall not be possible to rely on it in any manner.

The Authority is not obliged to respond to all requests for rulings, and it may review all requests and specify priorities on the basis of certain elements, including:

- The level of information submitted by the taxpayer in the request,
- The potential benefit to taxpayers as a whole on the issuing of a general ruling concerning some transaction or activity,
- Whether there is an existing law or guide dealing with this request.

11. Contacting us

For more information about VAT treatment, kindly visit our website: **vat.gov.sa**; or contact us on the following number: **19993**

12. Questions and Answers

1) Is the input VAT deduction treatment for Capital Assets the same as that for other goods purchased for the business activity?

Yes, the input tax related to capital assets is (in principle) deductible if it is used for taxable activities, in the same way as for other goods. However, the taxable usage of Capital Assets must be monitored over the Asset's useful life.

2) In what cases can a Taxable Person deduct input tax incurred on the purchase of Capital Assets?

A Taxable Person may deduct input tax related to Capital Assets upon their purchase, if the Capital Assets are intended to be used by the purchaser for the purpose of their Economic Activity which constitutes making taxable supplies (for example, to produce taxable goods or services).

Persons who deduct input tax upfront must monitor the use of the capital asset across its useful life and make an adjustment if the usage changes from the initial deduction percentage.

3) Our business imported a new machine for long term use in the course of its economic activity and paid VAT upon importation. Does the business need to charge VAT on the sale of the machine in KSA?

Yes, the business is required to charge output VAT on the onward sale based on the consideration received at the appropriate rate.

4) The business purchased factory equipment for taxable use and deducted input tax in full on the purchase. The equipment is used 60% for taxable use and sits unused for the remaining 40% due to lack of demand. Is the business required to adjust the input tax recovery?

No, an adjustment is only required for any twelve month period in which the actual taxable use (as a proportion of total usage) of the asset varies from the initial intended usage at the time of purchase (the Initial Recovery Percentage).

5) For how long must a business retain records related to its Capital Assets?

Invoices and records relating to movable Capital Assets must be retained for 11 years (being the standard Adjustment Period plus five years). Invoices and records relating to immovable Capital Assets must be retained for 15 years.

6) If a business has stopped using a Capital Asset in its economic activity, is it required to make any adjustment for VAT?

If a Taxable Person stops using a Capital Asset and sells it, this is a taxable supply which is subject to VAT. The Taxable Person must charge VAT on the sale and may be entitled to make a permanent adjustment to reflect taxable usage over the remaining useful life (if the initial input tax deduction is based on a recovery percentage lower than 100%).

If a Taxable Person deducts input tax on a Capital Asset, and ceases to make this available for use this in its Economic Activity within the Asset's useful life (for example, making the asset available for private use), this will result in the Taxable Person making a Nominal Supply.

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