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VAT

Transportation Sector Industry Guideline

October 2018

Version 2

VAT.GOV.SA

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1. INTRODUCTION

1.1. IMPLEMENTING A VALUE ADDED TAX (VAT) SYSTEM IN THE KINGDOM OF SAUDI ARABIA

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 3/5/1438 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 2/11/1438 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 14/12/1438 H (“the Implementing Regulations”).

1.2. GENERAL AUTHORITY OF ZAKAT & TAX

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. Unlike other taxes, persons subject to VAT will both:

- Collect VAT from their customers equal to a specified percentage of each eligible sale; and
- Pay VAT to their suppliers, if any, from whom they have received the goods or services, equal to a specified percentage of each eligible purchase

When taxable persons sell a good or service, a 5% VAT charge – assuming a standard case – is assessed and added to the final 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**.

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

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

1.4. THIS GUIDELINE

This guideline is directed for businesses involved in the passenger and freight transportation industries, and providers of goods and services to the industry. The guideline refers to suppliers of both international and domestic transportation alike. The purpose of this guideline is to provide further clarification regarding the tax treatment of these sectors.

This guideline represents GAZT's views on the application 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 in relation to the transportation sector from the Unified VAT Agreement, the VAT Law, or the VAT Implementing Regulations. 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.

However, 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.

1.5 Updates to this Guideline

Version 2	Issue Date: October 2018	Section 7 revised to clarify the treatment of the import and supply of a qualifying means of transport, and the test to identify whether a means of transport is used predominantly for international transportation.
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2. DEFINITIONS OF KEY TERMS

The Kingdom of Saudi Arabia is the territory on which the limit for applying KSA VAT, and determining whether transport is domestic or international, is based. It is a defined term for VAT purposes under the VAT law as follows: ⁽¹⁾

“The territory of the Kingdom of Saudi Arabia, including the areas located outside the territorial waters in which the Kingdom of Saudi Arabia practices the rights of sovereignty over its water, the seabed, the layers under the soil and natural resources, pursuant to its laws and international law.”

International Transport is a defined term for VAT purposes:

“The provision of a transportation service by means of a vehicle, aircraft or vessel together with a driver or pilot and with a crew where necessary for the purpose of that service, provided that the transportation service involves transport of Goods or passengers either to a place outside the Kingdom, or from a place outside the Kingdom into the Kingdom.” ⁽²⁾

The hire of a means of transport without a driver, pilot or crew is not a supply of international transport.

Passenger Transport is not defined for VAT purposes. GAZT considers it to include a transport service where one or more passengers are transported in any vehicle, regardless of whether the vehicle is designed for passenger transportation or the supplier is licensed to provide passenger transport. Any goods carried with a passenger is part of passenger transportation.

Goods Transport, also referred to as Freight, is not a defined term for VAT purposes. GAZT considers it to include any transport of goods from a place to another, provided that the goods are not accompanied by the customer as a passenger.

A Qualifying means of transport is a defined term for VAT purposes. The term is defined to be:

“Any vehicle, vessel or aircraft designed or adapted to carry a minimum of ten (10) people, or designed to carry Goods on a commercial basis, which is used predominantly for international transportation and not domestic passenger transportation.” ⁽³⁾

Any means of transport adapted for or intended for recreation or private use is not a Qualifying means of transport. The application of this definition is discussed in section 6.

Services relating to Goods or passenger transportation are any services which are provided together with and as a part of the transportation service, which are clearly linked to that transportation services. For VAT purposes, these services are listed as a non-exhaustive list by the VAT implementing regulations which includes the following services: ⁽⁴⁾

- a) “port fees or charges, including docking, mooring, landing and parking fees,
- b) charges for customs or immigration clearance relating to the transportation,
- c) air navigation services,
- d) pilotage services,
- e) Supplies of crew members,
- f) loading, unloading or reloading,
- g) stowing,

(1) Article 1, VAT Law

(2) Article 34 (7), Transportation services for Goods or passengers outside the Kingdom and Supplies relating to transportation, Implementing Regulations

(3) Article 34 (8), Transportation services for Goods or passengers outside the Kingdom and Supplies relating to transportation, Implementing Regulations

(4) Article 25(2), Place of Supply - other services, Implementing Regulations

- h) opening for inspection,
- i) cargo security services,
- j) preparing or amending bills of lading, air or sea-waybills and certificates of shipment,
- k) packing necessary for transportation,
- l) storage services”

3. ECONOMIC ACTIVITY AND VAT REGISTRATION

3.1. WHO CARRIES OUT AN ECONOMIC ACTIVITY?

An economic activity may be carried out equally 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. It should be stated that natural persons may perform certain transactions as part of their economic activity, or as part of their private activities. Therefore, there are 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 a person's taxable supplies over 12 month exceeds SAR 375,000 (the "Mandatory VAT Registration Threshold"), that person must register for VAT supplies made subject to the transitional provisions provided for in the Implementing Regulations. ⁽⁵⁾

Taxable supplies do not include:⁽⁶⁾

- 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⁽⁷⁾

In certain circumstances, other provisions 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;⁽⁸⁾
- 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

Example (1): Abdullah runs a goods transport business with annual taxable turnover of SAR 900,000. During 2018 he also sells a refrigerated truck which he has used in his business activities for SAR 150,000. Abdullah's combined turnover is SAR 1,050,000 in 2018, but he is not required to register as he does not exceed the mandatory registration threshold once the sale of capital assets is removed.

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

(5) Article 50, Mandatory Registration, Unified VAT Agreement

(6) Article 52, Calculating the value of Supplies, Unified VAT Agreement

(7) Article 1, Definitions, Unified VAT Agreement

(8) Article 5, Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom, Implementing Regulations

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.⁽⁹⁾

Optional VAT registration is preferable 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.

(9) Article 7, Voluntary Registration, Implementing Regulations

4. APPLYING VAT TO TRANSPORT: PLACE OF SUPPLY

4.1. PLACE OF SUPPLY RULES

KSA VAT is only chargeable on transactions which take place in the KSA for VAT purposes.

Generally, transactions with a place of supply in the KSA will have KSA VAT applied, either at a 5% rate or a zero-rate.

Transactions with a place of supply outside the KSA will not be subject to KSA VAT. The country where the place of supply takes place may however seek to impose VAT or a similar transactional tax.

The rules to establish where transactions take place are called the place of supply rules. These rules have been agreed at a GCC level to clarify which state should apply VAT in cases of cross-border transactions.

This guideline only considers the KSA VAT implications of transport activities.

4.2. PLACE OF SUPPLY OF TRANSPORT SERVICES

The place of supply of any supply of passenger transport or goods (freight) transport is the place where that transport starts.⁽¹⁰⁾ This rule applies regardless of the residence or VAT registration status of the supplier or customer. The place of supply of transportation services, and the applicable VAT rates, will be the same whether booking was made in person, or online via electronic booking services.

Transport Begins	Transport Ends	Description	Does VAT apply?
In KSA	In KSA	Place of supply in KSA (domestic transport)	Yes – standard rated
Outside KSA	In KSA	Place of supply outside KSA	No – out of scope
In KSA	Outside KSA	Place of supply in KSA (international transport)	Yes – zero rated
Outside KSA	Outside KSA	Place of supply outside KSA	No – out of scope

A single supply of transport can often take place over a period of time and may involve different means of transport. For each supply, the transport supplier will agree with the customer to transport passengers or goods from a place of origin to the place of destination. The transport supplier may itself supply the transport, or it may subcontract some or all of the transport.

Example (2): A passenger purchases one ticket with a Russian airline to fly from Moscow to Jeddah. The flight route includes one stop in Riyadh, where the passenger disembarks and catches a domestic flight to Jeddah. This is one supply of passenger transport with the place of supply outside the KSA.

The VAT treatment applied to connecting flights is discussed in more detail in section 5 below.

Example (3): A KSA manufacturer arranges with a local transporter for goods to be collected from his factory and transported to the port in Ras al Khair. He then contracts with a separate supplier to ship his goods from Ras al Khair to a port in the UAE. Although these are transport of the same goods, there are two supplies of transport by separate suppliers. Each supply begins in the KSA and has a place of supply in the KSA.

⁽¹⁰⁾ Article 18, Supply of Goods and Passenger Transportation Services, Unified VAT Agreement

4.3. PLACE OF SUPPLY OF TRANSPORT RELATED SERVICES

The place of supply of transport related services in respect of a particular transport of goods or passengers follows the same rule, as indicated in section 4.2 above and is determined by where the underlying transport starts⁽¹¹⁾. This rule is applicable regardless of the residence or VAT registration status of the supplier or customer.

Example (4): A freight company charges for added security protection for sensitive cargo shipped from Dammam to Singapore. The security services relate to the transport of goods and are supplied in the KSA where the transport starts. This supply may then however be subject to the zero-rating for services connected with international transport, provided that all conditions specified in the regulations are fulfilled.

The effect of this rule is that any services relating to the transport and clearance of goods imported from outside the KSA will be outside the scope of KSA VAT. By way of example, this includes:

- Port fees;
- Customs clearance;
- Insurance;
- Loading and unloading;
- Storage connected with importation; and
- Inspection services⁽¹²⁾

4.4. LEASING OF MEANS OF TRANSPORT

In cases where a vehicle or other means of transport is leased by a Taxable Person to a private individual or another non-taxable customer (i.e. a business or entity that does not have a VAT registration in the KSA or in any other GCC state), the leasing services are supplied in the country where the customer is provided with the means of transport (i.e. the place where the leased means of transport is placed at the customer's disposal⁽¹³⁾).

Example (5): An individual leases a car for two weeks in Bahrain, and uses this to drive to Al Khobar to visit family. The lease is deemed to be supplied in Bahrain – the country where he picked up the vehicle (where the vehicle is placed at his disposal). The supplier should not charge KSA VAT on the lease.

For leases to business customers who are VAT registered in a GCC state, the place of supply is dictated by where that customer is resident, based on the rules for intra-GCC trade.⁽¹⁴⁾

4.5. PLACE OF SUPPLY OF GOODS

In cases where tangible goods (including a means of transport itself, or spare parts) are supplied, the place of supply will be where the goods are physically located (when placed at the customer's disposal).⁽¹⁵⁾ In cases where the goods are themselves transported to the customer the place of supply would be where the transport of those goods commences.⁽¹⁶⁾

If a supply of goods involves an import into the KSA, this is a separate taxable event to the supply for which VAT is paid to the customs department on entry.

Example (6): A local transport company usually orders spare parts from a local supplier, who sends these from a distribution centre in Dammam. The place of supply of these goods is in the KSA, and VAT is charged at 5%.

(11) Article 18, Supply of Goods and Passenger Transportation Services, Unified VAT Agreement

(12) Refer section 2 for full definition of Services relating to Goods or Passenger Transportation

(13) Article 17, Leasing Means of Transport, Unified VAT Agreement

(14) Article 16, Place of Supply of Services between Taxable Persons, Unified VAT Agreement

(15) Article 10, Supply of Goods without Transportation, Unified VAT Agreement

(16) Article 11, Supply of Goods with Transportation, Unified VAT Agreement

The company is later required to order a special component for one of its bus fleet directly from the supplier in France. The supplier ships these goods to the transport company. The transport of the specialist component begins outside of the KSA, so the supply is not subject to KSA VAT (and the French supplier does not include KSA VAT on its invoice). The transport company must however pay import VAT at 5% to the customs department on entry of the goods.

4.6. PLACE OF SUPPLY FOR INTRA-GCC TRADE

The place of supply rules established in the Unified VAT Agreement prescribe that most services supplied to a VAT-registered customer (i.e. a customer with a VAT registration in any GCC state) are subject to tax in the country of the customer's residence. This allows the customer to self-account for VAT on the receipt of cross-border supplies of services.

This rule does not apply where a special place of supply provision applies under the Unified VAT Agreement.⁽¹⁷⁾ The special cases for supplies to VAT-registered customers are:

- Goods and passenger transport services;
- Real estate related services;
- Telecommunications and electronic services;
- Restaurant, catering and hotel services; and
- Cultural, artistic, sport, educational and recreational services

Therefore, all supplies of transportation services will be determined in accordance with the above mentioned rules, even in the case of GCC trade with a VAT-registered customer.

(17) Article 22, Place of Supply – priority of special provisions, Implementing Regulations

5. THE VAT TREATMENT OF PASSENGER TRANSPORTATION

VAT is applied to any supply of transportation performed by a Taxable Person.⁽¹⁸⁾

Below is a high-level summary of the VAT treatment of transportation, explained in further detail in this section for passenger's transportation and the following section on goods (freight) transportation:

		Passenger Transport	Freight
Type of Transportation	Domestic	5%	5%
	International	Zero rated	Zero rated

5.1. DOMESTIC PASSENGER TRANSPORTATION

Supplies of domestic passenger transportation made within the KSA are subject to VAT at 5%, unless provided as part of an international trip. This includes, but is not limited to:

- Domestic flights
- Ticketed bus or train transportation
- Transportation on a boat
- Chartered transportation (e.g. for schools or workers)
- Chauffeur services
- Private planes, helicopters or any other private means of transport
- Taxi and similar services offering passenger transport in a vehicle

The 5% rate applies to all charges for passenger transportation and related services (including, for example: luggage charges, booking charges, on-board catering or Wi-Fi charges, or taxi waiting charges).

5.1.1. Taxi services

The provision of passenger transport in a taxi is a taxable service which is subject to VAT. The term 'taxi' is not a defined term for VAT purposes, but all persons offering passenger transport to the public – including in taxis licensed under relevant law or provided through a private taxi co-ordination service or mobile-app based service – are presumed to carry on an Economic Activity. Suppliers must register where their annual turnover exceeds the mandatory VAT registration threshold (see details on registration in section 3). Further information is provided in the Economic Activity Guideline.

5.2. INTERNATIONAL PASSENGER TRANSPORTATION

5.2.1. Zero-rating of international transport

The International Transport of passengers commencing from the KSA is subject to the zero-rate (whether the transport is to another GCC State or any other non-KSA location), provided that one of the following conditions is met:

- The transport is by way of any Qualifying means of transport; or
- The transport is provided by way of a scheduled trip or voyage which runs according to a published timetable⁽¹⁹⁾

(18) A taxable person is any person who carries on an Economic Activity, and who is registered or required to be registered for VAT in the KSA. See section 3 for more detail on Economic Activity and registration.

(19) Article 34(2), Transportation services for Goods or passengers outside the Kingdom and Supplies relating to transportation, Implementing Regulations

Examples (7)	
Regular ferry service from Jeddah to Sudan	Zero-rated: Qualifying means of transport and scheduled voyage
Chartered bus for 25 company workers from Al Khobar to Kuwait City	Zero-rated: Qualifying means of transport
Replacement minivan for 9 persons from Dammam to Bahrain, to replace cancelled scheduled trip	Zero-rated: scheduled voyage
Chartered private jet for passengers from Riyadh to Abu Dhabi	Standard-rated: not a Qualifying means of transport and not a scheduled voyage

Note that, international passenger transport services from another country to the KSA fall outside the scope of KSA VAT under the place of supply rules. Therefore, no KSA VAT is applicable to such voyages.

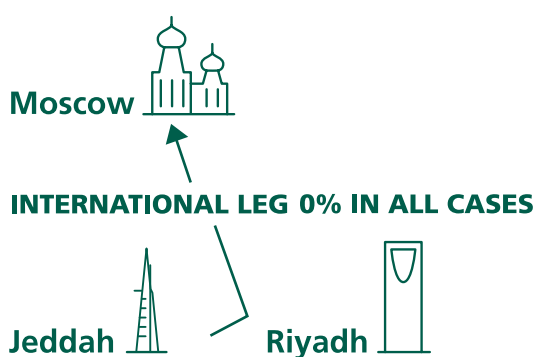
5.2.2. Domestic legs of a ticketed international voyage

Airlines and other international transport companies will often schedule international transport to take place with a connecting flight within the same ticket. This can result in a voyage including entailing two flights, of which the last one is domestic, and the first one is international and vice versa.

In cases where one supplier sells a voyage for passenger transport from a place in the KSA to a place outside of the KSA, this will be considered as one journey and as a zero-rated supply of international transport.

By exception, where any connection or layover in an international passenger transport exceeds the time limit specified by IATA, GAZT will consider this stop over to have ceased the journey and a new journey to start on the resumption. Each journey will be subject to VAT as a separate supply of passenger transport services.

Example (8): A passenger purchases one ticket with an airline to fly from Jeddah to Moscow. The flight is ticketed via a connecting domestic flight to Riyadh, where the passenger disembarks and catches an international flight to Moscow.



The passenger who purchased the flight from Jeddah to Moscow is charged 0% on both flights. Other passengers on the first Jeddah to Riyadh flight - who are not ticketed by that same airline to an international destination - are charged VAT at 5% on the domestic airfare.

Domestic leg
0% with international connection
5% all other cases

5.2.3. Zero-rating of services directly connected to International Transportation

Other services provided by the supplier of international transport that are directly connected and incidental to the passenger transport are also zero-rated. GAZT considers these services to include all services which arise as a result of the transport or are a means of better enjoying the transport.

Directly connected services must be provided to the customer by the same international transport supplier to qualify for zero-rating.

Specifically, the following services are specified in the Implementing Regulations as directly connected services: ⁽²⁰⁾

- Luggage charges for items accompanied by passengers, including domestic pets, bicycles, prams;
- Transporting vehicles of passengers;
- Airport passenger charges and passenger load supplements charged to passengers;
- Charges for seat reservations; and
- Sleeping berths and cabin charges

In addition, other services which allow passengers to better enjoy international transport and that will be considered to qualify for zero-rating would include:

- Charges for entertainment or Wi-Fi enjoyed on the flight or voyage;
- Catering, including any food and drink intended to be consumed on the flight or voyage

5.2.4. Goods sold on-board international transport

In some cases, goods may be sold on board international transport departing from and to the KSA. Where these goods are primarily intended to be consumed or used during the flight (such as food and drink sold as part of in-flight catering, or headphones sold for use with inflight entertainment), these are zero-rated in line with the treatment of the international transport.

Goods may also be sold during international transport which are intended for later use (commonly known as “sky sales” by airlines) – such as the sale of jewelry or perfume on board the plane or other supplies of goods for later consumption on a voyage leaving the GCC Territory will be treated as exports by the supplier, and will also qualify for zero-rating.

At present, whilst transitional provisions are in place for GCC trade, all sky sales for international transport will be considered as zero-rated exports (regardless of whether the destination port is in a GCC State or a non-GCC location).

Once the validity of transitional measures has lapsed, suppliers of goods on a trip between two GCC states, where those goods are not intended for consumption on the trip, will be required to charge VAT on the goods under the appropriate measures for intra-GCC trade. The supply of goods will be considered as an inter-GCC transaction, and the following shall apply: ⁽²¹⁾

- VAT will be chargeable in the GCC state of destination, where either the supplier or customer is registered or required to be registered for VAT in that GCC state
- VAT will be charged in the state of origin in all other cases⁽²²⁾

5.3. TRANSPORT PACKAGES

A travel supplier may provide transport packages to travellers: including domestic and international flights, connections, accommodation and other services. In these cases, the travel supplier makes multiple supplies, made up of separate components, to the traveller. Each corresponding supply could have different VAT treatments – such as the following examples:

⁽²⁰⁾ Article 34(3), Transportation services for Goods or passengers outside the Kingdom and Supplies relating to transportation, Implementing Regulations

⁽²¹⁾ Article 79(7), Transitional Rules, Implementing Regulations

⁽²²⁾ Article 12, Special Case of Internal Supplies with Transportation, Unified VAT Agreement

Zero-rated	<ul style="list-style-type: none"> • International transport • Domestic connecting flights (ticketed as part of an international trip) • International luggage charges
Standard-rated	<ul style="list-style-type: none"> • Local transfers (not ticketed as part of an international trip) – such as a bus from airport to hotel • Accommodation in the KSA • Tour guide services in the KSA • Local Insurance • Administration fees
No KSA VAT applicable	<ul style="list-style-type: none"> • Transport commencing outside the KSA • Accommodation outside the KSA • Tour guide services outside the KSA • Visa and other government services incurred on behalf of a traveller • Insurance – travel commencing outside the KSA

The travel supplier must determine the corresponding value of each component (if not already priced separately to the customer), and apply the appropriate VAT rate to each.

Suppliers of travel packages must not seek to artificially value zero-rated or non-VATable supplies at a higher value than VAT taxable supplies, and should be able to provide support of the commercial pricing adopted upon request by GAZT.

Example (9): ABC Travel, a KSA company provides a 7-night Umra mixed travel package to the Bahrain market for a combined price of BD250 (inclusive of VAT) per traveller, which includes the following aspects:

1. International transport (flight from Bahrain to Jeddah to Makkah, with one-night layover in Jeddah)
2. Accommodation in Jeddah and Makkah
3. Local transfers: in KSA to and from hotel
4. Extra return luggage to home country
5. Tour guide service provided by KSA supplier
6. Insurance for passenger from Bahrain to KSA
7. Government visa cost

ABC Travel determines that it must charge VAT on items 2, 3, and 5. It calculates the appropriate portion of the price of these components to be BD 100. It converts each item to Saudi riyal (using the published exchange rate 1BD = 10SAR) and calculates VAT at 5/105 of this price. The invoice issued to the customer shows the following:

Description	Value (BD)	Value inclusive VAT (SAR)	VAT Rate	VAT (SAR)
International flights	85	850	No VAT	0.00
Accommodation	60	600	5%	28.57
Local transfers	20	200	5%	9.52
Extra luggage	10	100	0% zero-rate	0.00
Tour guide	20	200	5%	9.52
Insurance	10	100	No VAT	0.00
Government visa cost	45	450	No VAT	0.00
Total due	250	2,500	-	47.61

ABC Travel reports VAT of SAR 47.61 (SAR 1,000 x 5 / 105) in its KSA VAT return.

6. THE VAT TREATMENT OF FREIGHT TRANSPORT

6.1. ZERO-RATED INTERNATIONAL TRANSPORT OF GOODS

Any goods transportation service from a place within the KSA to a place outside the KSA is subject to VAT at a rate of 0%. Any transport service from a place within the KSA to another place in the KSA is a domestic transportation service and is chargeable to VAT at 5%.⁽²³⁾

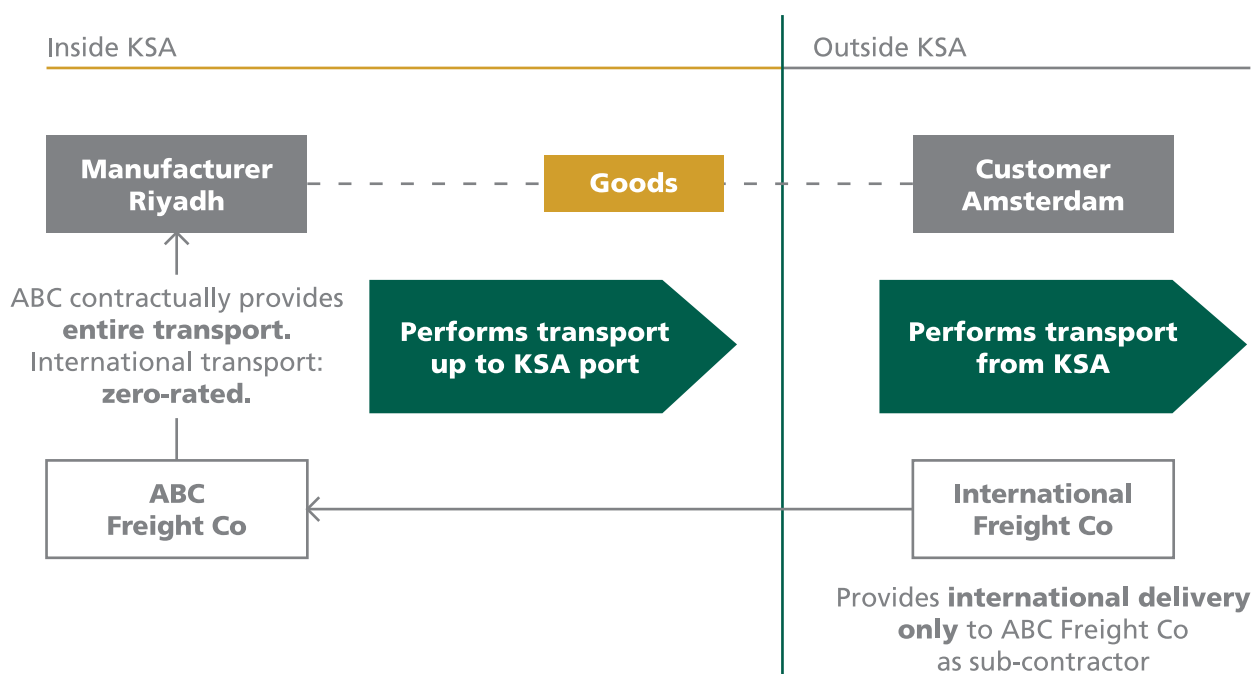
Goods transportation service from a non-KSA location to the KSA falls outside the scope of VAT.

6.1.1. Goods transport with multiple components

An international transport of goods departing the KSA may often involve different modes of transport. For example, the sale of goods to an overseas customer may involve the collection of goods in a vehicle from the seller's warehouse and transporting them to a port or airport, shipping from the domestic port to the final overseas port or airport, and delivery from the overseas port to a specified destination.

In cases where a supplier contracts for and arranges the provision from a place in the KSA to a place outside the KSA, the entire charges by that supplier will qualify as a zero-rated international transport.

Example (10): ABC Freight Company provides a manufacturer with a transportation of machinery to a customer in Amsterdam. ABC Freight Company collects machinery from the manufacturer's premises in Riyadh, takes these to the port and performs export formalities. It then arranges for an international shipping line to ship the machinery to Amsterdam. ABC Freight Company provides one transport service to its customer and should zero-rate its charge to the customer.

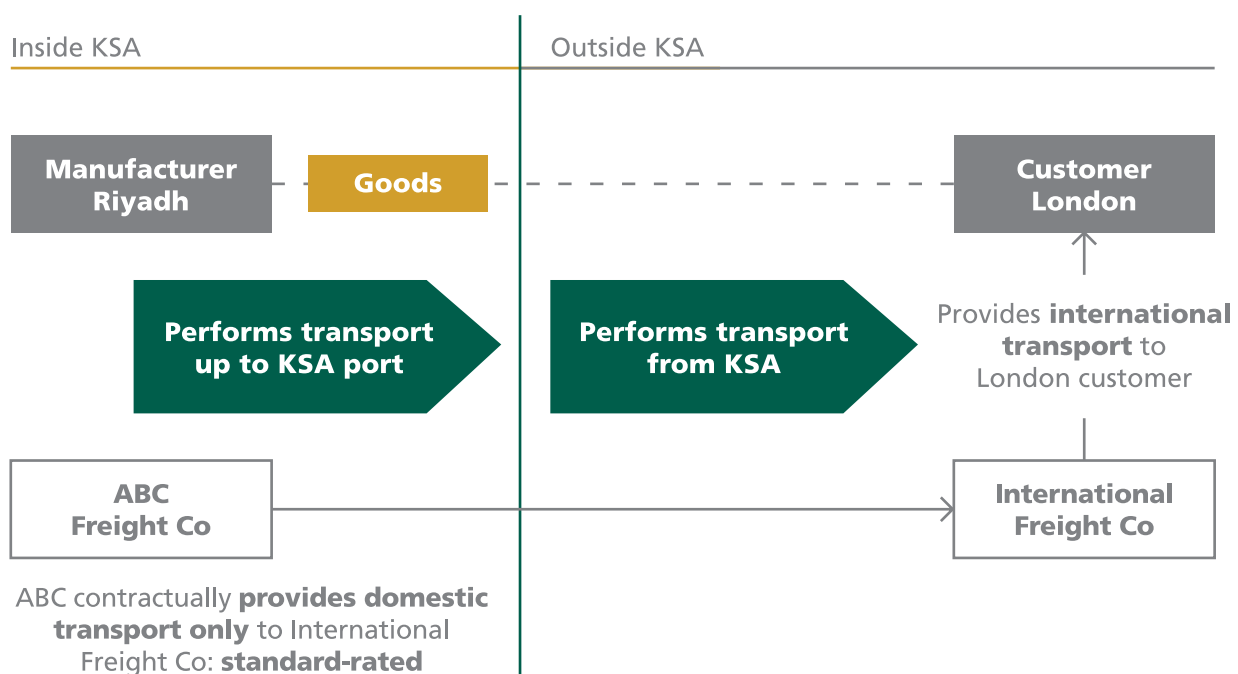


(23) Article 34(1), Transportation services for Goods or passengers outside the Kingdom and Supplies relating to transportation, Implementing Regulations

6.1.2. Subcontracted freight services

An international freight company may choose to subcontract part of a delivery to a third party. In this case, the third party acting as subcontractor will itself provide a transportation service to the international freight company. The subcontractor must determine if its own service is international or domestic goods transport, and apply the appropriate VAT treatment.

Example (11): The customer in London arranges for an international shipping company to pick up machinery from the manufacturer in Riyadh. The international shipping company asks ABC Freight Company to collect the goods and deliver these to the port. Whilst the goods are eventually destined for an international location, ABC Freight Company's own service is to transport the goods from a place in the KSA to the port in the KSA. It should charge VAT at 5% on its domestic transport service.



6.1.3. Services connected to goods transportation

Services relating to the transport of goods commencing outside the KSA are outside the scope of VAT (see section 4.3)

Supplies of services which relate to goods (or passenger) transportation may also be zero-rated. See section 2 for further definition of these services. In order for the zero-rate to apply, at least one of the two criteria below must be met:

- a) The services are ancillary to and provided with a supply of zero-rated international transport (discussed below); or
- b) The services are provided in respect of a Qualifying means of transport at an airport or port.⁽²⁴⁾ Services connected with a Qualifying means of transport are discussed in more detail in section 7

A service is ancillary to freight transport where it is carried out in order to support a principal supply of international transport. An ancillary service is not generally regarded as an objective of its own.

(24) Article 34(5), Transportation services for Goods or passengers outside the Kingdom and Supplies relating to transportation, Implementing Regulations

Where a supplier provides both international transport and services related to that transport, it is able to apply the zero-rate to the entire charge.

Example (12): Ahmed moves his house from Riyadh to Beirut, and contracts with a freight company to move his personal belongings. Ahmed chooses to travel with his friend Ibrahim for three months before settling in Beirut, and asks the freight company to store the goods for an extended period at its warehouse before the shipment is made.

The storage charge is ancillary to and provided with the international transport of goods by the supplier. It is zero-rated as a service connected to that international transport.

Example (13): Ahmed's friend Ibrahim also needs some storage for his goods. He uses the same company as Ahmed to store his goods, but later gets a different company to express courier the goods to Beirut. In this case, the storage has been provided by a different company to the supplier of international transport.

The storage services are not ancillary to and provided with an international transport of goods. These are subject to VAT at 5%.

7. MEANS OF TRANSPORTATION

Aircraft, vessels and other qualifying means of transportation may also be subject to the zero rate on their supply or import into KSA.

The zero-rate applies any qualified means of transport used principally for international transportation of passengers and goods, provided that all the following conditions are met:

	Description	Qualifying Means of Transport?
(1)	Any vehicle, vessel or aircraft	✓
(2)	Designed or adapted to carry at least ten people (crew and passengers) OR designed to carry Goods on a commercial basis	✓
(3)	Used or intended for use predominantly for international transportation	✓
(4)	NOT designed, adapted for or intended for recreation or private use	✓

The third and fourth tests above require determining the customer's intention for use of the means of transport. Therefore, the supplier needs to certify and record the intended use to support use of the zero-rate.

7.1. SUPPLIES OR IMPORT OF QUALIFYING MEANS OF TRANSPORT

An importer of a qualifying means of transport, when making the customs declaration, must certify to Customs that the imported particular vehicle, aircraft or vessel's main purpose is to be used predominantly for international transportation and is not intended to be used for recreational or private use.

Moreover, a supplier of a qualifying means of transport must determine the intended use of the customer by obtaining a certificate from the customer indicates that the transport mean is predominantly used for international transportation. The customer must confirm in the certificate that:

The customer must make the certification based on its best knowledge at the time of the supply. The submission of an incorrect certification may be subject to penalties listed in the Law and Regulations (please refer to section 10 of this guideline). Particular vehicle, aircraft or vessel's main purpose is to be used predominantly for international transportation and is not intended to be used for recreational or private use.⁽²⁵⁾

In order to consider a means of transport being used predominantly for international transport, the customer should perform a test on the means of transport he has by before issuing the self-declaration to the supplier or to Customs in order for the zero rate of VAT to apply.

Main purpose is to be used predominantly for international transportation" means that the operator of the means of transport must have evidence states that each individual means of transport are used at least 75% for international transport purposes. To achieve this condition, international transport suppliers must verify that each means of transport reaches 75% or more of the simple average from combining the four following factors:

(25) Article 34(8), Transportation services for Goods or passengers outside the Kingdom and Supplies relating to transportation, Implementing Regulations

1. Percentage of the number of international flights/voyages compared to the total flights/voyages by each means of transport.
2. Percentage of the distance traveled (miles/ km) for international flights compared to the total distance traveled for all trips by each means of transport.
3. Percentage of the Revenue generated by the international trips compared to the total trips by each means of transport.
4. Percentage of the Operating costs for carrying out international trips compared to the total operating costs for each means of transport.

The test should be carried out based on the actual data related to the previous 12 months if relating to an existing used means of transport, or on the expected and planned data for the up-coming 6 months if relating to a new means of transport which will be purchased and has not yet been used in the operations.

In all cases, suppliers of transport services must verify that all the conditions stipulated in Article 34 of the Regulations are fulfilled before issuing the certificate to the taxable suppliers or to Saudi Customs. GAZT will later verify the authenticity of the certificate provided. The customer may be subject to the penalties stipulated in the law and Regulations in case of submitting an incorrect certificate.

Example (14): An airline company operating in KSA intends to import three new aircraft from USA in order to increase its operating capacity. Upon importation, the airline company requests Saudi Customs to apply the zero rate to the import of these aircrafts as they are intended for use in international transport. In order for Saudi Customs to apply the zero rate to the import, the airline company must issue a self-declaration based on the four criteria tests.

The airline has forecasted the likely routes for the up-coming 6 months for each aircraft. Based on this data, the airline calculates the percentage of international transport by each plane under each of the four tests, and a combined average percentage as follows:

Estimated Data for upcoming 6 months			
Description	Plane 1	Plane 2	Plane 3
Aircraft registration number	HZ-ABC1	HZ-ABC2	HZ-ABC3
Expected No. of international flights by that aircraft	168	126	54
Expected No. of local flights by that aircraft	72	42	186
International as a percentage of total, based on number of flights	70%	75%	23%
Expected No. of international distance by that aircraft	186,000	143,400	60,000
Expected No. of local distance by that aircraft	39,600	53,400	67,200
International as a percentage of total, based on distance	82%	73%	47%
Expected revenue generated from international flights by that aircraft	3,864,000	1,806,000	834,000
Expected revenue generated from local flights by that aircraft	666,000	420,000	1,290,000
International as a percentage of total, based on revenue generated from that aircraft	85%	81%	39%
Expected operating costs of international flights by that aircraft	1,740,000	870,000	558,000
Expected operating cost of local flights by that aircraft	420,000	258,000	660,000
International as a percentage of total, based on the operating costs of that aircraft	81%	77%	46%
The simple average of all four international percentages = total percentages / 4	80%	77%	39%

Based on this calculation, the airline cannot make a self-declaration in respect of plane HZ-ABC3, as the

combined international percentage is lower than 75%. It will be subject to VAT at 5% upon importation by Saudi Customs. GAZT will later verify the authenticity of the certificate provided by the airline company to Customs.

7.2. REPAIR AND MAINTENANCE SERVICES AND ASSOCIATED GOODS

The zero-rate is also available for the following services provided for an international means of transport:

- Repair services
- Maintenance services
- Modification services

These services must be physically carried out on the particular means of transport to qualify for zero-rating, and must be carried out to ensure the continued operation of that vehicle, aircraft or vessel as a qualifying means of transport.

Any associated consumables, including fuel, engine lubricants, spare parts or other goods provided as part of these services may also be zero-rated.

The supplier must obtain certification (following the simple average not less than 75% mentioned in 7.1) that the work is being carried out, or goods are being supplied to, a qualifying means of transport.

7.3. SUPPLIES TO A MIXED FLEET

Some international transport providers may have a mixed fleet of vehicles or aircraft which are used for both domestic and international transport. Where possible, it must certify whether individual supplies are provided in respect of an Qualifying means of transport (i.e. one which is predominantly used for international transportation – GAZT considers this as using the means of transport in international transportation with a certain percentage of flights e.g. 75% of flights. Any other criteria may be used to satisfy the purpose of proving the use of the means of transport predominantly for international transport.

If a supplier has a periodic contract to provide services across a fleet of vehicles or transport types, the transport supplier should give details of which vehicles are qualifying means of transport and which are not. The supplier must allocate the portion of the goods and services provided to qualifying means of transport and apply the zero-rate to this portion of the supply.

Example (15): An airline has a fleet of 20 planes, and has a contract with a KSA based supplier to carry out maintenance on the fleet for a fixed fee of SAR 80 million per year. The company performed the test of each means of transport and founded that it will use 16 planes predominantly for international transportation (exceeding the 75% percentage as per the test mentioned in section 7.1 of this guideline). The airline provides a certification to the maintenance supplier with the details of the fleet which are qualifying means of transport.

Based on its customer data, the supplier calculated the value of the contract in respect of the qualifying aircraft. It concludes that SAR 64 million of the annual value of the contract relates to international transportation and is therefore subject to zero rate. The remaining value of the contract of SAR 16 million will be subject to VAT at 5%.

8. INPUT VAT DEDUCTION

8.1. 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 the Customs Department 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 and motor vehicles), 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.

8.2. PROVISIONS RELATING TO THE TRANSPORTATION SECTOR

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

Input VAT which directly relates to supplies which are outside the scope of VAT (e.g. transportation starting outside the KSA) may be deducted if the supply would have been taxable if made in the KSA.⁽²⁶⁾ Therefore, suppliers are expected to have full right to input VAT deduction for costs incurred in the course of their transportation activities.

However, input VAT may not be deducted on any costs which are for private purposes, or not incurred as part of the Economic Activity. Some types of "blocked" expenditure are specifically excluded from the right to deduct input VAT.⁽²⁷⁾ In particular, the purchase or lease of a motor vehicle which is available for any employee's private use (a "restricted vehicle") is considered private expenditure and the VAT incurred is unable to be deducted, even if the vehicle is used partly for business purposes.

In the same way, input VAT deduction is not available for fuel used in such restricted vehicles, and repair, alteration, maintenance and similar services in respect of these restricted vehicles.

8.3. 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

⁽²⁶⁾ Article 49(1)(c), Input Tax Deduction, Implementing Regulations

⁽²⁷⁾ A detailed list of the blocked expenditures is listed under article 50, Goods and services deemed to be received outside of Economic Activity, Implementing Regulations

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.⁽²⁸⁾

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

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:

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

The total value of **Taxable Supplies** and **Exempt Supplies** 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 will be provided in a separate guideline.

8.4. CAPITAL ASSETS

Capital assets are held for a long-term as a business investment, such as transport suppliers purchasing means of transport. VAT deduction is available upfront based on the intended use at the time of purchase.

Taxpayers are required to monitor the usage of movable tangible capital assets and intangible capital assets for a period of 6 years.⁽²⁹⁾ For buildings and real estate which are long-term capital assets the usage must be monitored over a 'useful life' period of 10 years, and make annual adjustments to the upfront VAT deduction where the actual use changes from **deductible** to **non-deductible** or vice versa.

As capital assets in the transportation sector are not expected to be used for making exempt supplies, it is not anticipated that adjustments will be required in many cases. However, any private usage of the asset during the useful life must be recorded and adjustments made accordingly.

Further details and example in respect of Capital Assets will be provided in a separate guideline.

9. OBLIGATIONS OF THE TAXABLE PERSON

In your capacity as a taxable person, you must evaluate your tax obligation and also comply with the

⁽²⁹⁾ Article 52, Capital Assets, Implementing Regulations

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.

9.1. DATE OF SUPPLY

VAT becomes due on the supply of transportation services on the date on which the transport takes place (or is complete). However, if an invoice is issued by the supplier before the transfer date, VAT becomes due on that earlier date of payment or of invoicing.⁽³⁰⁾

Some services may be provided as a continuous supply – such as a periodic repair and maintenance contract, or the lease of a means of transport. In these cases, VAT becomes due at the earlier of the invoice date or actual payment; and each separate amount charged is viewed as a separate and successive supply.⁽³¹⁾

9.2. RESIDENCE OF SUPPLIER

The application of VAT may depend on whether a supplier is resident in the KSA or not. A resident includes a resident company if it is formed under the Saudi Arabian Regulations or if its central management is located in the KSA. If a company or other legal person is incorporated outside of the KSA, but has a branch, place of business or other type of fixed establishment in the KSA, that company is also a resident.⁽³²⁾

9.3. CHARGING VAT

Where a supply is made by a resident supplier, that supplier is responsible for being registered for VAT (if required) and charging VAT at the appropriate rate. The supplier must issue a tax invoice for a supply on which VAT is charged.

If a supply is made by a non-resident supplier to a recipient who is resident in the KSA and registered for VAT, the supplier should not charge VAT. The recipient is responsible for reporting VAT (at the appropriate rate) on their VAT return through the Reverse Charge Mechanism. Further information on the Reverse Charge Mechanism is provided in the VAT manual at vat.gov.sa.

For taxable supplies subject to the standard 5% rate, VAT is charged at 5% of the total value of the supply. In cases where the supplier receives a single amount of consideration for the supply, VAT is included within the consideration received (calculated as 5/105 of the amount received). Further information on transitional supplies is set out in section 11.

9.4. ISSUING INVOICES

A supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any

(30) Article 23(1), Date of Tax Due on Supplies of Goods and Services, Unified VAT Agreement

(31) Article 23(4), Date of Tax Due on Supplies of Goods and Services, Unified VAT Agreement. And Article 20(2), Date of Supply in specific circumstances, Implementing Regulations

(32) Article 1, Definitions, Unified VAT Agreement

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.⁽³³⁾

If different rates have been applied to supplies, the value of each supplies 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 that document contains all of the requirements for the issuing of tax invoices as set out in the Implementing Regulations to the Law.

Tax invoices are not required for supplies which are outside the scope of KSA VAT.

Example (16): ABC Co, a KSA transport and business logistics supplier, charges a UAE Company for bus transport for 20 workers from Abu Dhabi to Dammam, two weeks accommodation near a work site, and daily transfers to the work site. The invoice must reflect the corresponding rates:

	VAT rate	Net (SAR)	VAT (SAR)	Total (SAR)
International return bus transport	Out of scope	2,000	0	2,000
Accommodation	5%	6,000	300	6,300
Daily transfers	5%	1,500	75	1,575
Total due				9,875

Further information on the requirements for tax invoicing can be found in the VAT manual or at vat.gov.sa.

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

9.6. KEEPING RECORDS

All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for

⁽³³⁾ For full details of invoicing requirements see Article 53(5), Tax Invoices, Implementing Regulations

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
- Any other records relating to the calculation of VAT

Records may be kept in physical copy, or in some cases electronically – but must be made available to GAZT on request .⁽³⁴⁾

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 non-movable capital assets.⁽³⁵⁾

9.7. YOUR OBLIGATIONS

As a Taxable Person, you have an obligation to assess your own VAT liability, and to comply with your VAT obligations. This includes registering for VAT when required, correctly calculating the amount of net tax you have to pay, paying tax on time, keeping all necessary records, and cooperating with officers of GAZT upon request.

If you are not sure of your obligations, you should contact GAZT or other communication channels through vat.gov.sa.

You could also seek external advice from a qualified professional.

9.8. REQUESTING A RULING

If, having consulted the relevant law and guidance, you are unsure on how VAT applies to a particular activity or transaction that you carry out or intend to carry out, you may apply to GAZT for a ruling (or you may ask a tax agent to do this on your behalf).⁽³⁶⁾ Requesting a ruling allows you to present the full facts of a particular activity or transaction to GAZT for consideration.

Rulings may be requested as:

- **Public:** in which case GAZT will publish details of the ruling, without any taxpayer-specific information; or
- **Private:** in which case GAZT will not publish the ruling

The ruling request should include all information on the activity or transaction that you request a ruling for, and a description of the specific area of uncertainty in the law or guidance which you have considered. You may choose to describe the alternatives and what you consider to be the correct treatment.

GAZT is not obliged to respond to all requests for rulings. It will consider and prioritize requests based on factors such as:

(34) Further detail in Article 66 (3), Records, Implementing Regulations

(35) Article 66(1), Records, Implementing Regulations

(36) Article 75, Rulings, Implementing Regulations

- The level of information presented by the taxpayer in the request;
- The benefit to the wider taxpayer community in issuing a public ruling on the transaction or activity; and
- Whether there is existing law or guidance which addresses the request

A public or private ruling issued by GAZT 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.

9.9. 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 VAT the tax return. Errors resulting in a net understatement of VAT (exceeding SAR 5,000) must be made known to GAZT within twenty (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. ⁽³⁷⁾

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

10. PENALTIES

The Authority may impose penalties or fines on taxpayers for violations of VAT requirements set out by the
(37) Article 63, Records, Implementing Regulations

Law or Implementing Regulations.⁽³⁸⁾

Description of offence	Associated fine
Submitting false documents with the intent of evading the payment of the VAT due or to reducing its value	<ul style="list-style-type: none"> • At least the amount of the VAT due • Up to three times the value of the goods or service
Moving goods in or out of the Kingdom without paying the VAT due	<ul style="list-style-type: none"> • 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 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).

11. TRANSITIONAL RULES RELATED TO TRANSPORTATION

VAT applies in principle on all transactions taking place after 1 January 2018, based on the date of supply rules described in section 9.1.

⁽³⁸⁾ Chapter 16 (Articles 39-47), Tax Evasion and Penalties, VAT Law

Transitional rules will apply to ensure VAT applies equally on transactions made close to the transition date. Further information on the transitional provisions is detailed in the Transitional guideline. Two rules of high relevance to the transportation sector are set out below.

11.1. DISREGARD OF EARLY INVOICE OR PAYMENT

Any supplier who issues an invoice or receives consideration before 1 January 2018 where the actual supply of goods or services takes place after 1 January 2018, shall be considered to make a taxable supply on the actual date of the supply, regardless of the date of the preceding invoice or payment.⁽³⁹⁾

In this case, the supplier is obligated to issue an additional invoice showing the tax charged on the taxable amount when the actual supply of goods or services takes place after 1 January 2018.⁽⁴⁰⁾

Conversely, if the actual supply took place before 1 January 2018 and the invoice was issued or the consideration was received after this date, the supply will not be subject to VAT.

Example (17): A bus company issues a ticket for a domestic bus journey from Riyadh to Dammam on 29 November and receives payment from the customer on that same day. The journey will take place on 5 January 2018. For transitional purposes, the early payment is disregarded. The supply takes place when the transport occurs on 5 January. VAT is chargeable at 5% and collected when the supply is made.

Example (18): An airline issues tickets and collects payment in September 2017 for a domestic flight which will be taken on 3 April 2018. For transitional purposes, the ticketing and payment is disregarded. The supply takes place when the transport occurs on 3 April and VAT is due on this date.

11.2. RELIEF FOR EXISTING CONTRACTS NOT ANTICIPATING THE APPLICATION OF VAT ('GRANDFATHERING')

A relief (often referred to as 'grandfathering') allows for supplies made under certain existing long-term contracts to be zero-rated for a transitional period until the earlier of the time the contract expires, is renewed or up to 31 December 2018.

This allows suppliers and customers who had entered into longstanding contractual commitments without VAT, an additional period to review the contracts and agree the correct price. Grandfathering relief only applies to those supplies that would have otherwise been taxable.

11.2.1. Contracts eligible for grandfathering

It is allowed to apply grandfathering rules on contracts which do not anticipate VAT, provided that such contracts do not include in its terms and conditions the following:

- State a price which does not indicate if it is inclusive or exclusive of VAT (or taxes); or
- Have no mechanism to adjust the price for a change to VAT (or taxes) applying to the goods and services provided under the contract;

In these cases, supplies made in respect of contracts for taxable transportation services may be treated as zero rated by the supplier until the earlier of the time the contract expires, is renewed, or 31 December 2018, provided that all of the following conditions are met:

(39) Article 79(1), Transitional provisions, Implementing Regulations

(40) Article 79(3), Transitional provisions, Implementing Regulations

1. The contract was entered into before 30 May 2017, the date the contract was entered is the day when the contract was signed by both parties. As for the contracts that were entered into prior to this date, and got renewed; these new contracts will be considered to be entered into on the date of the renewal
2. The customer is entitled to deduct Input VAT in relation to that supply in full, or an eligible person who has the right to refund VAT. Noting that it is not necessary that the customer is fully taxable or fully able to deduct input VAT for all of his activities in order to apply the grandfathering rules
3. The customer provides a written certification to the supplier that he is able to deduct/refund the Input VAT in relation to that supply in full ⁽⁴¹⁾

Example (19): An airline maintenance company has a fixed contract to provide servicing at King Khalid International Airport, to an airline based in the KSA in respect of a fleet of domestic and international aircraft. The contract was entered into in September 2016 without any mention of VAT, and is for a fixed monthly fee until expiry in 30 September 2018.

The airline carries out:

- Standard rated domestic flights of 5%
- Zero-rated international flights departing Riyadh
- Flights originating outside of the KSA (not subject to KSA VAT)

As all of these activities give the airline the right to input VAT deduction (taxable, zero-rated, or flights commencing outside of the KSA which would have been taxable if made in the KSA), it certifies that it will be able to deduct input VAT in full on those maintenance services.

The maintenance company may apply the zero-rate to all supplies until 30 September 2018. Once a new contract is agreed, it must apply the standard rate to any services which do not relate to a Qualifying means of transport.

11.2.2. Certification

Details about transitional and grandfathering rules and certificate will be discussed in a separate guideline.

- The customer should respond to the supplier request by providing their certificate, within a reasonable agreed time. This response should be based on all the facts available to the customer at the time of the response. The response should relate to the customer's ability to recover VAT on that particular supply (or those particular supplies). Moreover the customer has to:
 - Confirm his ability to recover the input VAT related to this supply
 - Inform that he is unable to recover the full VAT paid on this supply; or that he is unable to provide the required response
 - Provide a written certification via any means (including electronic communication) from the customer, provided it confirms on behalf of the customer of his right to deduct input VAT in relation to that supply or those supplies

12. CONTACTING US

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

(41) Article 79(3), Transitional provisions, Implementing Regulations

13. Q&A

(1) Does VAT apply to food purchased on a flight or other journey?

Food provided on a journey is considered a catering service, and will be zero-rated on any international voyage. Food provided on a domestic voyage is subject to VAT at 5%

(2) I booked my flight from Riyadh to Jeddah through an online website based outside KSA. Will I still be charged VAT?

Yes, VAT applies based on where the transport takes place, and not on the location of the supplier. It is likely the online site will act as an agent and you will be charged VAT by the domestic airline.

(3) Does VAT apply to booking fees for international flights?

If the airline or transport provider charges a booking fee, this is seen as directly connected to its supply of international transportation and can be zero-rated. If a third party agent carries out this service and makes a separate charge, it must apply VAT based on usual rules.

(4) Does VAT apply to booking commissions?

Yes. Commissions charged by travel agents in the KSA are a taxable supply of services subject to VAT at 5%. Travel providers should calculate VAT on the full value charged for transportation services, without deducting the commission amount.

(5) Does VAT apply to journeys provided to customers or to employees for free?

A flight or trip provided to a customer or to an employee for private use will be considered as a nominal supply, and subject to VAT provided the value of the journeys provided to the person exceeds 200 riyals in a calendar year or 50,000 riyals in a calendar year for all customers or employees, based on the fair market value.

(6) May I zero-rate the maintenance services I provide to airlines at the airport?

You may apply the zero rate to these services if the customer provides a confirmation that the services are being provided in respect of a Qualifying means of transport, as per the requirements specified in the law and regulations.

(7) How does the airline certify for zero-rating for aircraft?

It must prove that the main purpose of the aircraft is international transport and confirm that the aircraft meets 75% or more of the simple average percentage of all of the following:

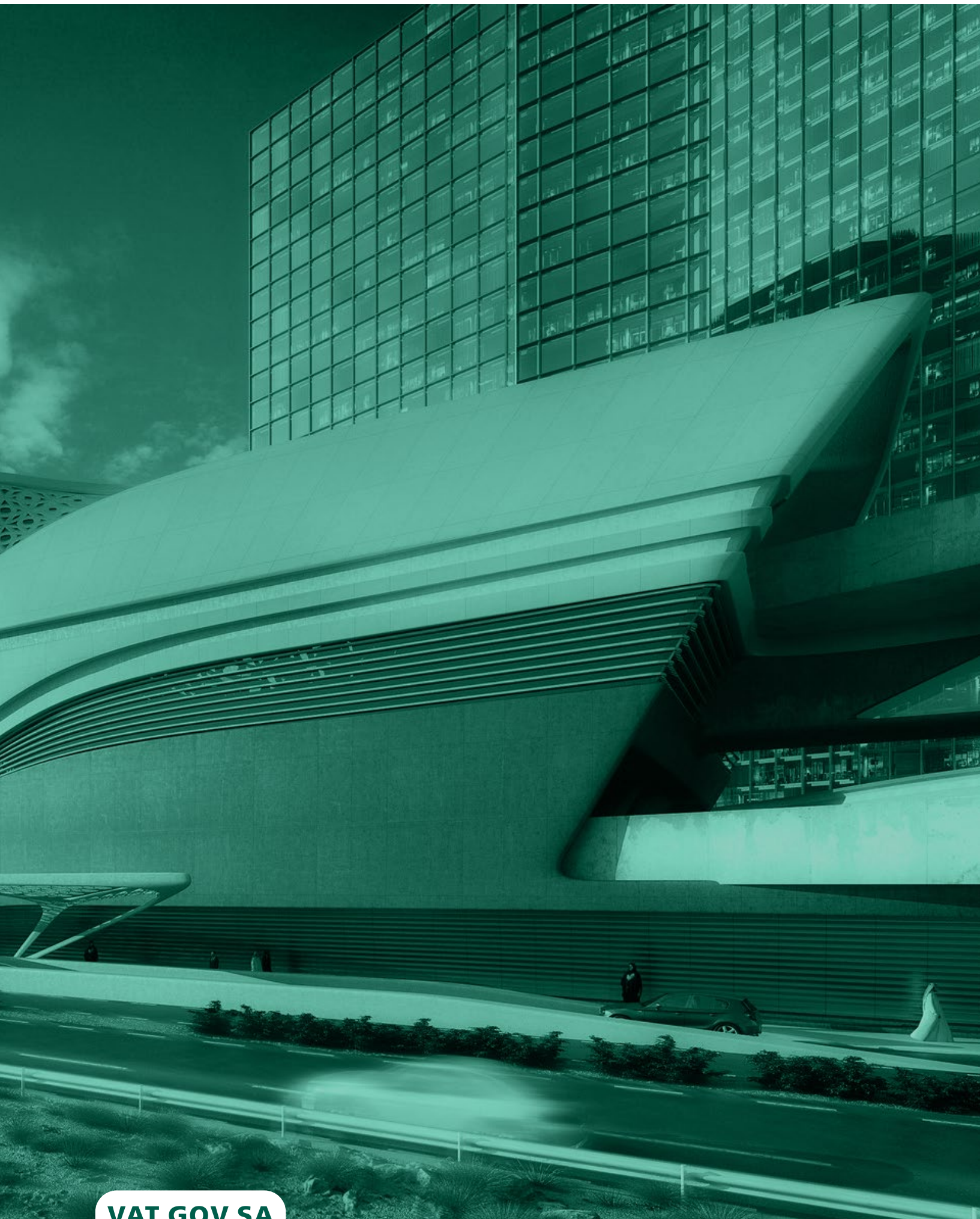
1. Percentage of the Number of international flights/voyages compared to the total flights/voyages by each aircraft.
2. Percentage of the distance traveled (miles/km) for international flights compared to the total distance traveled for all trips by each aircraft.
3. Percentage of the Revenue generated by the international trips compared to the total trips by each aircraft.
4. Percentage of the Operating costs for carrying out international trips compared to the total operating costs for each aircraft.

(8) Does VAT apply to fuel supplied to ships and aircraft?

Yes. If the customer provides a confirmation that the ships or aircraft are Qualifying means of transport, the provision of fuel is zero-rated.

(9) Do I need to audit the certification provided by the airline?

No, but if you have reason to believe the services are being provided to non-qualifying aircraft, you should not apply the zero-rate. The airline should not provide an incorrect certification and may face penalties if it does this.



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