

ضريبة
القيمة
المضافة

VAT

VAT on Employee Benefits Guideline

April 2019

Version 2

VAT.GOV.SA

@SaudiVAT | 19993

Contents

1. Introduction	4
1.1. Implementing a Value Added Tax (VAT) system in the Kingdom of Saudi Arabia (KSA)	4
1.2. General Authority of Zakat & Tax ("GAZT")	4
1.3. What is Value Added Tax ?	4
1.4. This Guideline	4
1.5 Updates to this Guideline	5
2. Definitions of main terms used	6
3. Economic Activity and Registration	8
3.1. Who carries out an Economic Activity?	8
3.2. Employees and provision of personal services	8
3.3. Mandatory registration	8
3.4. Optional VAT registration	9
4. Cash Payments to Employees	10
4.1. Salary and Wages	10
4.2. Reimbursement of actual expenditures	10
4.3. Cash benefits / allowances	10
4.4. Special cases – outsourced Human Capital & Secondment	11
5. Nominal supplies	12
5.1. General provisions	12
5.2. Accounting for VAT on a nominal supply	13
5.3. Nominal supply arises only where deduction claimed	13
5.4. Valuation of nominal supplies	14
6. Provision of discounted Goods or Services	15
6.1. Valuation of goods or services provided to Employees	15
7. Statutory benefits	16
8. Specific tangible benefits types	17
8.1. Motor Vehicles	17
8.1.1. Restricted Motor Vehicles	17
8.1.2. Maintenance and fuel expenditure	18
8.2. Catering	18
8.3. Employee housing and accommodation	18
8.3.1. Long-term accommodation	18
8.3.2. Short-term accommodation	19
8.3.3. Housing allowances	19
8.3.4. Provision of permanent homes	20
9. Input VAT Deduction	21
9.1. General Provisions	21
9.2. Proportional deduction relating to input VAT	21

10. Obligations of the taxable person	23
10.1. Issuing invoices	23
10.2. Filing VAT Returns	23
10.3. Keeping records	24
10.4. Certificate of registration within the VAT system	24
10.5. Correcting past errors	24
11. Penalties	25
12. Applying for the issue of rulings (interpretative decisions)	26
13. Contacting us	26
14. Frequently asked questions	27

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 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")

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 to when 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 equal to a specified percentage of each eligible purchase

When taxable persons sell a good or provide a service, a 5% VAT charge – assuming a standard case – is assessed and added to the sales price. The taxable persons will account for that 5% 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 addressed to all businesses with Employees or persons acting in a capacity similar to that of Employee and Employer. The purpose of this guideline is to provide further clarification regarding the tax treatment benefits made available to those Employees.

This guideline represents GAZT's views on the application and fair treatment of the Unified VAT Agreement, the VAT Law and the Implementing Regulations to the subject as of the date of this guideline, but does not include, or purport to include, all the relevant provisions from those 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 which have been established as a reference to support the taxpayers and enterprises, as well as visual guidance materials, all relevant information, and FAQs.

1.5 UPDATES TO THIS GUIDELINE

Section 3.2 updated to communicate GAZT policy that Directors and similar appointed officers of a company or organization are not considered Taxable Persons.

2. DEFINITIONS OF MAIN TERMS USED

An Employment Contract: an employment contract is deemed to be a contract concluded between an Employer and the Employee, whereby the latter undertakes to work under the management or supervision of the former for a wage.

Employee and Employer: these terms are not defined for VAT purposes. However, the Implementing Regulations specify rules relating to the VAT treatment of those working in an Employee capacity. Therefore, some of the definitions in the Labour Law have been used.⁽¹⁾

For the purposes of executing the Implementing Regulations, GAZT anticipates a broader interpretation to include those working under arrangements equivalent to an employment contract. In cases where there is no formal employment contract, GAZT will nonetheless consider individuals to be working as 'Employees' – i.e. within a relationship of Employer and Employee - where all of the following conditions are met:

- (1) Only the Employer is able to instruct / determine the activities of the Employee;
- (2) The Employee does not have materially different working conditions to other Employees
- (3) The Employer bears the risk of payment based on time spent (or other remuneration where equivalent to that of other Employees)
- (4) The Employee cannot carry out work for other parties during the period of the contract;
- (5) The Employer specifically hired that individual Employee for the activities, and the Employee or supplier is not able to substitute the individual without the Employer's approval.

Individuals who provide their personal services to a business (often referred to as a **contractor or service provider**), and do not meet the test for an Employee above, are not Employees.

Worker: Any natural person who works for the benefit of an Employer under his direction or supervision for a wage/ remuneration, even if he is not near him, referred to in this guideline as "Employee".

Employer: Any natural or legal person employing one or more workers/Employees for remuneration/ wage, referred to in this guideline as "The Employer".⁽²⁾

Basic Pay/Wage: All that is given to an Employee in return for its work, under a written or not written contract of work, regardless the type of remuneration or method of payment, in addition to periodic increments.

The Actual Pay/Wage: the base pay/wage plus all other accrued increases determined for the Employee in exchange for an effort made by him at work, or risk in the performance of his work or which the Employer decides for the work performed under the employment contract or the employment regulation system. It is referred to in this guideline as "wages".

Private use is not a defined term for VAT purposes. GAZT considers private use to be any use, consumption or enjoyment of goods or services by a natural person or group of natural persons, where such use does not take part in the course of an economic activity by those persons, or by Employees for private purposes not in the course of their work duties. Examples of the interpretation of private use in specific cases are provided where relevant in this guideline.

A nominal supply is a defined term for VAT purposes. It is a supply defined to take place as a result of an event where a taxable person uses or provides goods or services in a certain way. A person making a nominal supply is deemed to have made a supply of the underlying goods or services and is required to account for VAT. The specific events and the consequences are discussed in section 5 of this guideline.

(1) Article 50, Labour Law, enacted by Royal Decree No. M/51

(2) The definition of an Employee is not limited to what the Saudi labor system defines. GAZT may rely on the civil service system, military service or other relevant regulations, as the case may be

Fair market value is a defined term for VAT purposes. It is the "...Consideration that would be payable for a Similar and Contemporaneous Supply of Goods or services freely offered and made between Persons who are not Related Persons".⁽³⁾

A **Similar and Contemporaneous** Supply is a defined term for VAT purposes. It means "another Supply of Goods or services supplied at the same time that are either identical to, or closely or substantially resemble, the Goods and services being supplied. This shall be ascertained based on all relevant factors including the characteristics, quality, quantity of the Goods and services, the place and date of Supply and reputation of the Supplier."⁽⁴⁾

Economic Activity defined for VAT purposes as "an activity that is conducted in an ongoing and regular manner including commercial, industrial, agricultural or professional activities or Services or any use of material or immaterial property and any other similar activity".

For more information about Economic Activity, kindly refer to the Economic Activity guideline.

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

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

3. ECONOMIC ACTIVITY AND 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 legal persons (companies) that have a regular activity of making or receiving supplies carry 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. There are therefore specific rules to determine whether or not a natural person falls within the scope of VAT.

Generally, natural persons and legal persons who carry on an economic activity must register for the purposes of VAT if so required⁽⁵⁾, and such persons must collect the VAT applicable to their activities, and pay the tax collected to the Authority.

3.2. EMPLOYEES AND PROVISION OF PERSONAL SERVICES

For VAT purposes, Employees do not carry on an Economic Activity in respect of the services provided as part of employment. The services an Employee offers are “personal services”, which is a person’s exertion or labour under contract. The Implementing Regulations confirm that VAT is not charged on payments of salary or wages to an Employee, or someone working in this capacity (discussed in more detail in the Definitions section).⁽⁶⁾

Non-Executive Directors who are not Employees but charge a director’s fee to the company or organization, are not viewed to be independent of the organization they represent, and therefore do not carry out independent economic activity.

Employees, Directors and similar appointed officers of a company or organization are not considered Taxable Persons and are not eligible to register for VAT in respect of their activities as an employment, director or appointed member.

Individuals who are not Employees, but instead provide regular and continuous services to legal persons (specifically businesses) on an independent basis under a services agreement or similar, will carry on an Economic Activity for VAT purposes. These individuals may be required to register for VAT, depending on the value of Taxable Supplies made annually. In this way, the provision of identical services by persons operating under different contracts can have distinct VAT treatments.

Example (1): Ahmed, a Saudi resident natural person carries out IT consulting work for a number of businesses on short-term contracts. He charges a daily rate of SAR 2,000 but does not sign a contract of employment with the hiring businesses. He is not viewed to act in the capacity of Employee, as he provides services to multiple recipient businesses. The nature of Ahmed’s activities constitutes the provision of services as part of an Economic Activity. If his annual turnover exceeds the mandatory registration threshold, he will be required to register for VAT and charge this with his day rate.

3.3. 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⁽⁷⁾ for supplies made (taking into consideration the transitional rules in the Implementing Regulations related subject to the transitional provisions provided for in the Implementing Regulations).⁽⁸⁾

(5) For more information about the cases where persons are required to register, kindly refer to section 2.3 of this guideline

(6) Article 9(6), Registration provisions applying to specific circumstances, Implementing Regulations

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

(8) Article 79(9), Transitional provisions, Implementing Regulations

Taxable supplies do not include:⁽⁹⁾

- Exempt income – such as any exempt financial services or residential rental which qualify for VAT exemption;
- Supplies taking place outside of the scope of VAT in any GCC state; or
- Revenues from supplies of capital assets – a capital asset is defined as an asset allocated for long-term business use⁽¹⁰⁾

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⁽¹¹⁾
- 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 (2): 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.

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

3.4. OPTIONAL VAT REGISTRATION

Any Resident person who has taxable supplies or taxable expenses exceeding the “voluntary VAT registration threshold” of SAR 187,500 in a twelve-month period may register for VAT on an optional basis.⁽¹²⁾

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 available at vat.gov.sa.

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

(10) Article 1, Definitions, Unified VAT Agreement

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

(12) Article 7, Voluntary Registration, Implementing Regulations

4. CASH PAYMENTS TO EMPLOYEES

4.1. SALARY AND WAGES

The payment of salaries and wages to the Employees do not give rise to any VAT obligations. VAT is not charged by an Employee on salary or wages, or any additional monetary payments such as bonuses and increments paid to the Employee by the Employer.

4.2. REIMBURSEMENT OF ACTUAL EXPENDITURES

Employers will often make monetary payments to reimburse Employees for actual expenditures incurred in the course of carrying out their work duties.

The Employee does not carry out an Economic Activity in respect of incurring and charging for these expenditures. Therefore, no VAT should be charged by the Employee on that reimbursements as these do not qualify as a supply. However, the Employee should generally be reimbursed for the full VAT inclusive cost.

In cases where it can be clearly evidenced that the Employee has received a supply of goods or services as a required part of his employment duties, and for the purposes of input tax deduction or refund, GAZT will generally accept that the Employee incurs the cost on behalf of the Employer, provided that the Employer proves that he has actually incurred the cost paid by the Employee (including VAT as appropriate) and that the supply is therefore received by the Employer in the course of the Economic Activity of the Employer.

Example (3): Al Qimmah Consulting Company requires Faisal to attend a supplier conference in Dammam on 20 April, 2018. Faisal stays at the hotel where the conference is held on 19 and 20 April and incurs the accommodation cost including the VAT of 5%. The Company reimbursed Faisal for the total accommodation costs incurred. If the Company can evidence that this was carried out as a requirement of Faisal's work duties which are related to the Company's economic activities, the Company can account for the expenditure directly, and may be eligible for input VAT deduction if the relevant criteria are met.

In other cases, an Employer may authorize reimbursement of a private expenditure. In this case, there is no supply made to the Employer by the Employee or others. These expenditures will be considered as not related to the economic activity and will not be eligible for input tax deduction.

Example (4): Muna has performed strongly against all employment targets during 2018. Her Employer, agrees to reimburse a purchase of electronic equipment for her house as a reward. Muna visits a local store and selects a television priced at SAR 3,150 (inclusive of VAT). In this case, the supply of goods is made directly from the local store to Muna. Her Employer will not be entitled to deduct input VAT on the television.

4.3. CASH BENEFITS / ALLOWANCES

A cash benefit/allowance provided to an Employee is, in the same way as wages, not treated as consideration for any supply. VAT is not applied to these payments, whether these are paid as a statutory requirement or discretionary allowance.

In cases where a cash allowance is provided in place of a tangible benefit,⁽¹³⁾ the VAT treatment is the same as for any cash payment. If the employer has designed the cash allowance to be equivalent to the provision of underlying goods or services, it would be appropriate in most cases to provide a VAT-inclusive sum. Conceptually, the employer could provide a VAT-exclusive value, or any other value, if it is in line with commercial arrangements and any obligations under Labour Law and other applicable laws.

Example (5): Al Olayya Consulting Company provides new lease vehicles to all managerial staff as part of

(13) Definition of Tangible Benefit, Labour Law – Article 2(5)

their employment contracts, valued at SAR 24,000 per year (exclusive of VAT). To allow Employees more choice, the Company allows Employees to not receive the vehicle and elect to be paid a monthly cash allowance instead. The Company realizes that Employees will incur VAT on purchasing vehicles in their own right, so it calculates the equivalent monthly cash allowance to be VAT inclusive (SAR 2,000 + 5% VAT = SAR 2,100).

Note that the Company is not obliged by VAT law to provide a specific value or incurring the VAT: it could choose to make the cash amount SAR 2,000, or any other amount.

4.4. SPECIAL CASES – OUTSOURCED HUMAN CAPITAL & SECONDMENT

Businesses may often choose to outsource specific roles or functions to third party providers or agencies. Usually, these third party providers undertake to carry out the activity under a contract for services which is considered a supply of services. In this case the third party provider's charges are subject to VAT under the standard VAT rules.

Alternatively, it may provide specific persons to carry out the roles under the direct instruction of the recipient business (in line with a contract of service between the service provider and the recipient business). In these cases, the third party/agency may charge for the Employee's salary or wage, plus a commission.

In cases where the contract between the recipient business and the third party provider creates a relationship between the business and the seconded/mandated worker equivalent to that of an Employer and Employee (as described in section 2), then the payment of wages to the third party provider or agency is not subject to VAT. In all cases, the commission or margin earned by the third party provider or agency must be subject to VAT.

Example (6): A bank requires a legal translator to assist with a review of the English translation of its contracts. It engages with The Arabian Hands for Human Resources, who agrees to provide Ms. Heba for a six-month period. The Arabian Hands charges a base salary of SAR 75,000 for the six month period, plus a commission of 20%, but the contract prescribes that Ms. Heba will work exclusively for, and report directly to the bank - and will be treated equivalently to other Employees during this time. The bank is required to pay the salary based on time spent (regardless of working hours), and The Arabian Hands is not able to replace Ms. Heba without approval of the bank. The contract therefore prescribes Ms. Heba acts in the capacity of an Employee, and the bank as her Employer. VAT is not charged on the base salary and is only charged on the commission (which is calculated as SAR 15,000 + 5% = SAR 15,750).

5. NOMINAL SUPPLIES

5.1. GENERAL PROVISIONS

For VAT purposes, a “supply” for a consideration “a supply of Goods or Services for consideration”⁽¹⁴⁾ is considered as a taxable supply subject to tax. In addition, 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.⁽¹⁵⁾ Of relevance to Employee benefits are the following nominal supplies:

(1) “disposal of Goods, for purposes other than Economic Activity, with or without a Consideration;

The key aspect here is that the disposal is made for purposes other than the Economic Activity; e.g. for the private benefit of the Employee. By way of example - an office disposes of a working printer within its economic life and allows any Employee to take this home if they wish. This is a nominal supply.

If a taxable person is required to dispose of assets as part of the business activity – e.g. destroying damaged stock, or disposing of unconsumed food, this is not a nominal supply.

(2) Supplying Goods without Consideration, unless the Supply is in the course of business, such as samples and gifts of trivial value as determined by each Member State.

A supply of goods to a related or non-related person) for no consideration is in most cases considered a nominal supply. However, it is acknowledged that a Taxable Person will supply some small value items as part of its business activities. The KSA specifies that there will be no nominal supply for VAT purposes in cases where:

- The Fair Market Value of the Goods supplied without Consideration does not exceed two hundred (200) riyals exclusive of VAT per recipient per calendar year; and
- The annual value of Supplies of gifts, samples and Goods which a Taxable Person makes without consideration does not exceed fifty thousand (50,000) riyals in that calendar year based on the Fair Market Value of those gifts, samples and Goods⁽¹⁶⁾

(3) Taxable person’s use of goods that form part of his assets for purposes other than those of an Economic Activity;

The use of goods such as capital assets for purposes other than economic activity, is a nominal supply of services. By way of example – an earth moving company directs some company equipment to be assigned for use at a company director’s premises to carry out works on his personal garden for six months. This is a nominal supply of services.

(4) Supplying Services without Consideration.”

All distinct supplies of services which are provided without charge (noting also the requirement to deduct input VAT in relation to the supply). By way of example – a hotel stay purchased by a company for an Employee as a reward for good performance.

In some cases, a service will be described as “free” as promotional language (for example, a mechanic will provide a free safety check as part of every motor vehicle service). In cases where the “free” element is clearly an indistinguishable part of the overall supply, and the customer has paid one price expecting to get the free element. The free element will not be considered as a separate supply without consideration.

(14) Article 1, Definitions - Supply, Unified VAT Agreement

(15) Article 8, Nominal Supplies, Unified VAT Agreement

(16) Article 15, Nominal Supplies, Implementing Regulations

5.2. ACCOUNTING FOR VAT ON A NOMINAL SUPPLY

VAT is applied to a nominal supply based on the applicable rate for those goods and services. Therefore, a nominal supply of Qualifying Medical Goods will be zero-rated, as the goods are zero-rated when supplied in the KSA. A supply of real estate outside the KSA without consideration will be a nominal supply which falls outside the scope of KSA VAT.

VAT should therefore be reported in the appropriate box in the return. A nominal supply subject to the standard rate of 5% should be entered in the 'Standard rated sales' field. VAT generally forms a cost to the person making the nominal supply: there is no requirement that this VAT amount be charged to the recipient. In all cases, the taxable supplier is liable to pay the VAT on a nominal supply. Indeed, if a charge of any sort is made – and consideration is received for the goods or services, there is no longer a supply without consideration and the supply will be subject to the supply rules according to the VAT Agreement, the VAT law and the Implementing Regulations.

5.3. NOMINAL SUPPLY ARISES ONLY WHERE DEDUCTION CLAIMED

A nominal supply is only made in cases where input tax has already been deducted in relation to the goods or services provided.⁽¹⁷⁾

GAZT interprets this to mean any input tax that is attributable to the nominal supply. For example, this would include the purchase of the goods or services themselves; or constituent expenditure (such as raw materials to make goods or equipment used for supplying services).

Deduction of general overheads for the business's entire economic activity (such as electricity or office rental) does not mean that input tax has been deducted in relation to all nominal supplies. Input VAT must have been deducted in respect of a constituent element of the goods or services in order for a nominal supply.

Example (7): A company buys 100 coats to sell during winter, and deducts input VAT. It sells only 90 coats, and gives the remaining coats to staff for no consideration. As it has deducted input VAT, this is a nominal supply and VAT is due according to the value of supply rules.

Example (8): A transport provider purchases a bus to provide transport to the public, and deducts VAT on the purchase via the VAT returns. The company allows the bus to be used to transport a director and his extended family to a wedding in Jeddah with no consideration. As it has deducted VAT on the bus, this is a nominal supply and VAT is due.

Example (9): An investment manager in a financial consultancy company meets with a family member of one of the owners and provides free financial advice. No input VAT was deducted in relation to the advice provided, as the only relevant costs were staff costs. The provision of free advice in this case does not constitute a nominal supply and no VAT is due.

In practice, this means that businesses may elect to treat costs as non-deductible expenditure upfront, on the basis that they are not incurred as part of the business activity but for Employee's private benefit. Where the business elects to do this, it will not be required to account for VAT on nominal supplies.

Example (10): A company purchases souvenirs from a supplier to provide to all Employees as an Eid gift. It does not intend to sell the souvenirs in its Economic Activity, and therefore does not deduct VAT on their purchase. The company does not make a nominal supply when it provides the souvenirs to Employees for no consideration as input VAT was not deducted on their purchase and therefore no VAT is due.

(17) Article 8(3), Nominal Supplies, Unified VAT Agreement

5.4. VALUATION OF NOMINAL SUPPLIES

For goods and services that are purchased and supplied onwards, the nominal supply is valued based on the purchase value or cost to the supplier.⁽¹⁸⁾

Example (11): A company purchases a bulk order of sunglasses for resale, which have a retail selling price of SAR 450, but the company pays SAR 300 (excluding VAT) as a value of purchases from the supplier. The company gives a pair of sunglasses to Employees as a gift. The value of the nominal supply is the purchase value (being SAR 300). VAT is calculated based on 5% of this value, being SAR 15 for each pair of sunglasses given away.

In cases where a clear purchase value or cost cannot be ascertained (e.g. for items which are developed internally, or for items that have been used or modified by the business), the value of the nominal supply is the Fair Market Value, as determined in accordance with the Implementing Regulations.⁽¹⁹⁾ Fair Market Value is discussed further in section 6 of this guideline.

(18) Article 26(4), Value of Supply of Goods and Services, Unified VAT Agreement and Article 39(1), Value of specific Taxable Supplies – Nominal Supplies, Implementing Regulations

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

6. PROVISION OF DISCOUNTED GOODS OR SERVICES

6.1. VALUATION OF GOODS OR SERVICES PROVIDED TO EMPLOYEES

An Employer and his Employee are related persons for the purposes of the VAT law.⁽²⁰⁾ This means that any supplies from the Employer to the Employee are subject to special valuation rules.

The Implementing Regulations state the following.⁽²¹⁾

Provisions in Implementing Regulations	Comment
The value of a Supply is its Fair Market Value, instead of any actual Consideration paid, in cases where each of the following applies:	This includes an Employer and Employee, or anyone acting in the capacity of Employer and Employee as explained in this guideline.
a) A Supply is made between Related Persons, as defined in the Agreement or in these Regulations	
b) The Consideration for the Supply is less than the Fair Market Value of the Supply	Fair market value rules only apply if the recipient (usually the Employee) pays less than the fair market value.
c) The Customer is not entitled to a full Input Tax deduction in relation to the Supply	An Employee does not carry on an Economic Activity and is not considered as a Taxable Person, so will not be entitled to any Input VAT deduction.

The Fair Market Value is based on a comparison to a Similar and Contemporaneous Supply of those goods and services or equivalent goods and services.

The Fair Market Value should be based on the price which could be obtained by third party customers (not related) in the normal course of events. This may therefore take into account discounts which would normally be offered to customers. It is not strictly necessary to base the Fair Market Value on the quoted retail price.

Example (12): A fashion store offers a discount of 40% to its Employees from the quoted retail price. The maximum discount the store usually offers to the public is a 20% discount. An Employee purchases a suit with a retail price of SAR 2,500 (including VAT), and pays SAR 1,500. Earlier that year, the store had offered a similar suit for SAR 1,200 in a special clearance sale.

In this case, the Similar and Contemporaneous Supply would be the value which would be offered to the public at that time (being a 20% discount, or a VAT inclusive price of SAR 2,000). This makes the Fair Market Value SAR 1,904.76: the VAT exclusive value. The suit offered during a clearance sale, whilst being similar in quality, is not a contemporaneous supply as it takes place under different circumstances.

The store must calculate and report VAT based on the Fair Market Value, being 5% x 1904.76 or SAR 95.24. The Employee still pays SAR 1,500 (the store will bear the tax difference or charge on the Employee), which includes SAR 95.24 of VAT.

(20) Article 37(3), Related Persons, Implementing Regulations

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

7. STATUTORY BENEFITS

Employers in the KSA may be required by Labour Law or other KSA law to provide certain benefits to Employees.

Any costs incurred by Employers in the fulfilment of legal obligations to Employees are deemed to be carried on for the purpose of their Economic Activity. Whilst the Employees also derive a benefit from these obligations being fulfilled, this is a necessary cost of business and will not be considered private expenditure.

Input VAT deduction is permitted on the same basis as any other overheads or non-attributable expenditure, depending on whether the Employer's Economic Activity constitutes making taxable or exempt supplies.

The provision of any goods or services provided by an Employer as a statutory requirement will likewise not be considered to be a nominal supply, subject to compliance with statutory provisions related to statutory benefits.

If an Employer undertakes to provide goods and services to the Employee in excess of the statutory requirement under KSA laws, the amount which exceeds the statutory requirement must be recognized by the taxable person as private expenditures (without input VAT deduction), or a nominal supply.

Example (13): A bank is required by law to provide medical insurance for Employees and their immediate families. An insurer provides this statutory cover for a cost of SAR 4,000 (excluding VAT) per insured per year. The insurer offers an addition to the policy for an additional SAR 1,000 per insured per year, providing additional benefits not required under law, of which SAR 50 is VAT.

The bank chooses to cover the cost of the enhanced insurance for its Employees, as an additional benefit in order to attract skilled workers. It may deduct VAT on the statutory insurance provided, but must restrict VAT deduction on the SAR 50 of VAT charged on each amount of additional cover incurred.

8. SPECIFIC TANGIBLE BENEFITS TYPES

8.1. MOTOR VEHICLES

8.1.1. Restricted Motor Vehicles

The Implementing Regulations define a Restricted Motor Vehicle for the purpose of input VAT deduction⁽²²⁾. A Restricted Motor Vehicle is deemed to be incurred outside of the Economic Activity, and is not eligible for deduction.

“A Restricted Motor Vehicle is any vehicle designed to be used on the road unless the vehicle is either:

- a) Used exclusively by the Taxable Person or by its Employees for work purposes, without being made available for any private use,
- b) Primarily intended for resale by the Taxable Person or otherwise for use in an Economic Activity supplying that vehicle.”⁽²³⁾

All vehicles may therefore be viewed as restricted motor vehicles: including cars, vans, and utility vehicles. The key test is whether the vehicle is made available for private use.

GAZT considers that in the context of a vehicle, private use is any use which is not carried out in the Employee’s work duties. If the car is required to be kept at the Employee’s home outside the working hours, then travel to and from the home is not considered private use. There is no specific rule that applies in all cases, each case is considered separately to determine whether the use is private or for economic activity. Incidental use in the course of a trip for work purposes, such as stopping at a restaurant whilst travelling to a customer’s premises, is not considered private use.

The terms and conditions agreed to by the Employee when signing on to use a car will often evidence the Employer and Employee’s intention for the car to be available for private use. If a vehicle is not made available for private use, the Employer should retain evidence that it carries out checks to enforce this restriction, such as notices or reminders issued to Employees on vehicle use, or records of internal audits of vehicle usage, where these are carried out.

A vehicle may either be a Restricted Motor Vehicle (in which case no deduction is available) or used exclusively for work purposes and not available for private use (in which case input VAT deduction may be made in full when all deduction requirements are fulfilled).

There is no ability for partial deduction if a vehicle is partly available for private use. These vehicles are Restricted Motor Vehicles.

Example (14): An Employer signs an agreement with sales representatives that they may use their company vehicle for private use on Thursday and Friday, and the vehicle may not be used on the remaining days for private use unless specifically instructed by management. Although the usage of the vehicle is restricted in part, it is available for private use in part. The vehicle is therefore a Restricted Motor Vehicle, and no deduction is permitted.

It should be noted that GAZT does not comply with such contracts, internal labor regulations or any similar document which state the conditions of use of the Employer’s vehicles and has the right to rely on any source to establish whether the vehicles are available for private use or not.

⁽²²⁾ Article 50(2), Goods and services deemed to be received outside of Economic Activity, Implementing Regulations

⁽²³⁾ Article 50, Goods and services deemed to be received outside of Economic Activity, Implementing Regulations

8.1.2. Maintenance and fuel expenditure

The repair, alteration, maintenance or similar services on Restricted Motor Vehicles; and the fuel used in Restricted Motor Vehicles; is also deemed to be incurred by an Employer outside of the Economic Activity.⁽²⁴⁾

Repair, alteration, maintenance or similar services are any services to be physically carried out on the vehicle, or physically carried out in the operation of the vehicle. This includes the installation of added equipment in the Restricted Motor Vehicle, or the cost of drivers for the Restricted Motor Vehicles.

All fuel costs for a Restricted Motor Vehicle are not eligible for input VAT deduction, regardless of whether the fuel is used for work purposes or not.

8.2. CATERING

Catering services provided in hotels, restaurants and similar venues, is deemed to be incurred outside of the Economic Activity.⁽²⁵⁾ This reflects the private benefit to the Employees or other individuals consuming the catering. An Employer is therefore unable to deduct input VAT on any catering costs.

This includes the provision of meals to Employees (and third persons) in an on-site cafeteria, or any meals consumed by Employees (and third persons) at restaurants or similar establishments during the course of their work duties.

8.3. EMPLOYEE HOUSING AND ACCOMMODATION

Many Employers offer different housing and accommodation options to Employees. The VAT consequences will depend on the facts and circumstances in each case.

8.3.1. Long-term accommodation

An Employer may provide accommodation that is intended to be used on a continuing basis as the Employee's residence.

In general, the supply of residential rental is an exempt supply where:

- The property is a permanent dwelling designed for human occupation;
- The property is intended for use as a primary residence

The exemption for Residential Real Estate applies to residential accommodation for Employees – provided this is a dwelling which the person or persons use as a primary residence on a regular or habitual basis and returns back to after periods of absence. Further information is provided in the real estate guideline.

(24) Article 50, Goods and services deemed to be received outside of Economic Activity, Implementing Regulations

(25) Article 50, Goods and services deemed to be received outside of Economic Activity, Implementing Regulations

Depending on the exact details of the housing scheme and the contractual terms, the Employer may arrange for accommodation to be provided in different ways, for example:

Employer will:	VAT treatment	Value of supply
(a) Provide the accommodation for non-monetary consideration (e.g. in return for the Employee fulfilling his work duties).	The rent is exempt supply, provided the rental meets the primary residence test above. The sale of residential real estate (whether via installments or other methods) is subject to VAT.	Fair market value of the accommodation.
(b) Provide the accommodation in return for monetary consideration – in part or in full - from the Employee.	The rent is exempt supply, provided the rental meets the primary residence test above. The sale of residential real estate (whether via installments or other methods) is subject to VAT.	Fair market value of the accommodation.
(c) Provide the accommodation for no consideration.	nominal supply, which is exempt if the rental meets the primary residence test above.	Fair market value of the accommodation.
(d) Not be involved in the provision of accommodation but agree to pay the costs of the Employee's accommodation provided by a third party.	No supply by the Employer.	No supply.

In cases where the housing scheme provides the option for the Employee to purchase the house at the end of the term, this is seen a supply of the real estate, instead of a rental contract. See section 8.3.4 below.

8.3.2. Short-term accommodation

Short-term accommodation, such as hotel or serviced apartment accommodation, is often provided to allow the Employee to carry out his work duties at a specific location, as a requirement of his employment. The Employee is required to maintain his own regular residence.

Short-term accommodation costs are subject to VAT at 5%. Provided these costs are incurred to allow an Employee to fulfil employment obligations in a specific location, this VAT is an expense in the course of the Economic Activity, without a distinct private element. It is eligible for deduction if the remaining criteria are met.

Example (15): Al Asalah Co requests Khaled, an Employee based in Jeddah, to carry out a three-month assignment near Riyadh. It provides a serviced apartment for the duration of the three-month contract, and is charged VAT by the accommodation provider. There is no distinct private element to this expenditure, and it is viewed as a cost incurred in the course of Al Asalah Co's Economic Activities.

Alternatively, if short-term accommodation is provided for private reasons, or is not required to fulfil the employment obligations, this is not an expense incurred in the course of an Economic Activity.

8.3.3. Housing allowances

An Employer may offer Employees a cash allowance in place of the provision of accommodation. The payment of a cash allowance is not a supply for VAT purposes.

8.3.4. Provision of permanent homes

Some Employers offer a scheme whereby the Employer builds residential dwellings, and allows Employees the option to purchase the dwelling at the end of a period of rental or lease (and often contingent on the completion of a certain period of service with that Employer).

GAZT has clarified that rent-to-own and lease-to-own contracts for real estate and other assets, where the contract gives the recipient the option to obtain ownership to the asset at the end of the term, are considered to be supplies of the underlying assets.⁽²⁶⁾ The particulars of individual schemes should be analysed to confirm if they include an option for the Employee to acquire the house in totality at the contract's end.

VAT becomes payable on the date when the assets are put at the disposal of the recipient or on the date of periodic instalment payment, whichever is earlier. In the case of a rent-to-own program, this will generally be the date on which the Employee moves in or otherwise takes possession to the house. The Employer is liable to pay VAT on this date.

Any rent-to-own contracts where the Employee took possession prior to 1 January 2018 are not subject to VAT, even if the Employee continues to pay the instalments after 1 January 2018.

(26) Article 5, Supply of Goods, Unified VAT Agreement

9. INPUT VAT DEDUCTION

9.1. 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 exempt 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 costs which are for an Employee's private benefit. Some specific expenditure types - such as catering and motor vehicles as discussed in section 8⁽²⁷⁾ - are blocked from deduction in all cases. VAT deduction is not available on any costs which relate to making exempt supplies.

Input VAT may only be deducted where the Taxable Person holds a tax invoice, or customs document showing the amount of tax due, subject to the approval of the Authority (or any other alternative documents proving the payment of VAT on the supply to the supplier, upon GAZT approval).⁽²⁸⁾

The tax invoice should be issued in the name of the Taxable Person in order to substantiate credit. In cases where a Taxable Person can clearly evidence that its Employees have incurred travel and expense costs in the course of carrying out their work duties, GAZT will accept an invoice which is issued in the Employee's name.

9.2. 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:⁽²⁹⁾

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

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

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

(27) A detailed list of the blocked expenditures is listed under Article 50 of the Implementing Regulations.

(28) Article 49(7), Input Tax Deduction, Implementing Regulations.

(29) Article 51, Proportional deduction of Input Tax, Implementing Regulations

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 are provided in a separate guideline.

10. 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 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.

10.1. ISSUING 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.⁽³⁰⁾ 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 document contains all of the requirements for the issuing of tax invoices as set out in the Implementing Regulations to the Law.⁽³¹⁾

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

10.2. 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 review these requests and will pay the amount due on refund requests that have been approved, directly to the taxpayer.⁽³²⁾

(30) For more details on the requirements for issuing tax invoices, refer to Article 53, Tax Invoices, Implementing Regulations

(31) Article 53, Tax Invoices, Implementing Regulations

(32) Article 69, Refund of overpaid Tax, Implementing Regulations

10.3. 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 in some cases electronically – but 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 at most 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.⁽³³⁾

10.4. 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.

10.5. 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 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.⁽³⁴⁾

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

(33) Article 66, Records, Implementing Regulations, and Article 52, Capital Assets, Implementing Regulations

(34) Article 63 [Correction of Returns], Implementing Regulations

11. PENALTIES

The Authority may impose penalties or fines on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations.⁽³⁵⁾

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).

⁽³⁵⁾ Chapter Sixteen: Articles (39), (40), (41), (42), (43), (44), (45), and (47), [Tax Evasion and Penalties], VAT Law

12. 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

The ruling may contain all of the information relating to the activity or the transaction in respect of which the ruling is requested, in addition to an explanation concerning the particular area of doubt or uncertainty in the law or the guide that you have looked at. You may choose to describe the alternatives and what you consider the correct treatment.

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

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.

13. CONTACTING US

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

14. FREQUENTLY ASKED QUESTIONS

(1) A resident taxpayer pays director's fees to a non-executive director. Must it require the Non-Executive Director to charge VAT?

The services provided by a non-executive director carrying out his role as a member of the Board of Directors are not part of an independent Economic Activity and are not subject to VAT.

(2) The business destroys stock which is past the use-by date at the end of a working day. Are there any VAT consequences?

If stock is destroyed or disposed of as a required part of the Economic Activity, this does not constitute a nominal supply. Input VAT deduction is available in principle, provided that the stock was purchased for the intended use in making taxable supplies.

(3) The business has a staff canteen which provides meals to Employees, as there are no other facilities close to the work site. Are there VAT consequences?

The VAT incurred in the provision of catering services is not considered to be incurred as part of the Economic Activity, therefore, the input VAT will not be deductible or recoverable. Providing meals is not a nominal supply.

(4) Employees may opt to receive an additional cash allowance instead of being provided with meals at the staff canteen. Are there any VAT consequences?

No, there are no VAT consequences from the payment of a cash allowance to an Employee as there is no supply.

(5) The company pays for the medical insurance of Employees and their immediate families. Can the VAT be deducted?

If the medical insurance for the Employees and family members is a requirement of Saudi Labour Law or other valid laws, then VAT is in principle eligible to be recovered/deducted, provided the other criteria for deduction are met.

(6) Employees drive the company's delivery vans for work purposes. These vans are often parked at the Employee's home overnight. Is VAT deduction available?

The business needs to establish if the delivery van is a Restricted Motor Vehicle (i.e. if it is available for any private use). If the Employees are required to park the vans at home at night, and the vans are not available for any private use (other than incidental use whilst in the course of work duties), then VAT deduction is available in full.

(7) Pool cars are generally kept in the company's locked car park overnight, but Employees are able to take these for private use if they wish. How is VAT calculated on these cars?

As the cars are available for Employee's private use, the VAT incurred on these vehicles is not deductible. This applies regardless of whether private use takes place or not.

(8) Employees are not able to use the cars for private purposes, unless they agree with the company to pay a daily rate to use the car. What is the treatment of the input VAT?

VAT is deductible. A car is not a Restricted Motor Vehicle to the extent it is used to make an onwards supply, this will be considered as a supply since the Employer is providing the car to the Employees for consideration. In this case, VAT should be charged to the Employee on the daily rate charged for the vehicle, and then the input VAT will be deductible.

