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VAT

# Financial Services Sector Industry Guideline

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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”).

#### 1.1.1. 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 shall 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.

#### 1.1.2. 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 general information about VAT can be found in the KSA VAT Manual or at [vat.gov.sa](http://vat.gov.sa).

## 1.2. THIS GUIDELINE

The purpose of this guideline is to provide additional clarification with respect to the VAT treatment related to the Financial Services sector, including the provision of insurance.

This guideline is directed for businesses involved in the Financial Services sector, including commercial banks, insurers, asset financing companies; or any business that provides financial services as part of its overall activities.

This guideline is issued by GAZT for information only. It represents GAZT's views on the application and fair treatment of the Unified VAT Agreement, the VAT Law and the Implementing Regulations to the Financial Services sector as of the date of this guideline, but does not include, or purport to include, all the relevant provisions in relation to the Financial Services sector 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.

However, for further advice on specific transactions we encourage you to apply for a ruling, or send an email to [vat@gazt.gov.sa](mailto:vat@gazt.gov.sa), or visit the official VAT website at ([vat.gov.sa](http://vat.gov.sa)), which contains a wide range of tools and information that is a reference to support the taxpayers and enterprises, as well as visual guidance materials, all relevant information, and FAQs.

## 2. DEFINITIONS OF THE MAIN TERMS USED

Financial Services Broadly, financial services concern the provision or dealing with money, short-term finance or long-term finance as part of an economic activity. The term “financial services” is a defined term for VAT purposes – the Implementing Regulations’ definition is broad and non-exhaustive. However, the following items are specifically included as a financial service:<sup>(1)</sup>

- a) The issue, transfer or receipt of, or any dealing with, money, any security for money or any note or order for the payment of money,
- b) The provision of any credit or credit guarantee,
- c) The operation of any current, deposit or savings account,
- d) Financial instruments, such as derivatives, options, swaps, credit default swaps and futures.
- e) The issue or transfer of a debt security, equity security, or any other transferable document recognising an obligation to pay a monetary amount to the bearer.
- f) The provision or transfer of a contract of life insurance, or the reinsurance of a life insurance contract.

This list is non-exhaustive, and other services which are concerned with the provision or dealing with finance, which do not fall expressly into the categories above, can also be considered financial services. A list of services commonly provided in the Financial Services sector and their corresponding VAT treatment is included as Appendix I to this guideline.

For VAT purposes, the provision of financial services is not limited to regulated or licensed suppliers. Any person who supplies financial services will be required to evaluate the correct VAT treatment of their supplies under the law.

Example (1): A manufacturer provides an extended credit facility for their customers on goods supplied to them, and charges interest on the unpaid amounts. The manufacturer is providing credit and therefore supplying financial services.

Example (2): A group treasury company makes a loan to another group company. The provision of the loan is the issue of a debt security. The group treasury company has supplied financial services.

**Securities** is not a defined term for VAT purposes. GAZT considers its definition for the interpretation of the VAT law to be debt securities, equity securities, shares, options, futures, swaps, credit default swaps and underwriting/subscriptions.

**Debt security** is not a defined term for VAT purposes. GAZT considers its definition for the interpretation of the VAT law to be a loan, debt or any other financial instrument issued by companies or governments resulting in interest or similar payments to the holder of the debt security until the maturity date and repayment of the principal – the face value of the debt security – at the maturity date by the issuer. Debt securities, including the entitlement to interest benefits, can be traded. There are many forms of debt securities, such as corporate bonds, government bonds, collateralized bonds, certificates of deposit and debentures.

Equity security is not a defined term for VAT purposes. GAZT considers that equity security has a broad definition in the context of interpreting the VAT law: to be any share or other interest held in a company or venture, or other financial instrument representing an interest held in an entity by a shareholder. Income received from the ownership by the holder of an equity security is generally by way of a dividend. Equity securities can be traded and therefore result in a trading gain or loss, depending on the value of the equity security.

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(1) Article 29, Financial Services, Implementing Regulations

**Economic Activity** defines the activities which fall within the scope of VAT. This includes business activities but also any other ongoing and regular activities which may be carried on by legal persons or natural persons. The term is defined by the Unified VAT Agreement for VAT purposes as:<sup>(2)</sup>

**“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.”**

Activities falling within the scope of Economic Activity within the financial services sector are discussed in this guideline.

**Taxable Person** is any person – including any business or any individual or person that has the legal personality to enter and be bound by contracts with third parties – who carries on an Economic Activity independently for the purpose of generating income.<sup>(3)</sup>

**Life insurance contract** is defined in the Implementing Regulations as:

**“any contract of conventional insurance or takaful or another form of Islamic insurance provided by a regulated provider in the KSA which results in the payment of a sum contingent on death or another significant event of human life, or a similar contract provided by a non-residentSupplier.”<sup>(4)</sup>**

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(2) Article 1, Definitions, Unified VAT Agreement

(3) Article 1, Definitions, Unified VAT Agreement

(4) Article 29(8), Financial Services, Implementing Regulations

## 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. All businesses who carry on an Economic Activity are required to comply with obligations to register for VAT where needed: and all VAT-registered businesses must collect and remit VAT on their activities.

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 levied to the Authority.

VAT exempt activities are included within the definition of Economic Activities. Therefore, businesses which make exempt supplies must consider if they are required to, or able to register.

The activities of government institutions which form part of their designated public operations (i.e. to the extent that the government institution in question is empowered by statute to perform the duty of function concerned) will not be treated as business activities in most cases (whether or not a charge is made for those supplies). Consequently, a government institution would not qualify to be treated as carrying on an Economic Activity in the ordinary course of events.

However, where government institutions do carry on an identifiable business activity involving making or receiving supplies in a commercial capacity which is not part of their functions as a public authority, those institutions will, to the extent they carry on that business activity, also be able to be considered to be carrying on Economic Activity.

Example (1): ABC Co is a KSA established company only provides VAT exempt financial services. These activities do not count towards the registration threshold and do not require ABC Co to register.

However, during 2019 ABC Co receives services from companies outside KSA for an amount of SAR 1,500,000 for which ABC Co needs to self-account KSA VAT as a recipient via the Reverse Charge Mechanism. As ABC Co carries on an Economic Activity, it must register for VAT purposes in the KSA as the value of supplies for which it is obliged to pay tax in the KSA exceeds the mandatory registration threshold. For further details, please refer to section 3.2.

The receipt of dividend income is not a supply. Therefore, the holding of shares as a passive investment (and the receipt of dividend income) is not, in itself, an economic activity, as it does not involve an ongoing and regular activity of making supplies. Further information about Economic Activity and application to holding companies is provided in the Economic Activity guideline.

### 3.2. MANDATORY REGISTRATION

Registration is mandatory for all persons whose annual turnover exceeds a certain threshold. If the total value of a person's taxable sales during any 12 months exceeds SAR 375,000 (the "Mandatory VAT Registration Threshold", that person must register for VAT on the sale and any other taxable supplies made.<sup>(5)</sup>

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



Taxable supplies do not include:<sup>(6)</sup>

- 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<sup>(7)</sup>
- Revenues on sales of capital assets – a capital asset is defined as an asset allocated for long-term business use

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;<sup>(8)</sup>
- 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<sup>(9)</sup>

More information on mandatory registration for VAT is contained at [vat.gov.sa](http://vat.gov.sa).

### 3.3. OPTIONAL VAT REGISTRATION

Any resident person who has taxable sales or taxable expenses exceeding the “Optional VAT Registration Threshold” of SAR 187,500 in a twelve-month period may register for VAT on an optional basis.<sup>(10)</sup>

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.

Example (2): ABC Financing is a KSA company which has opened for business in 2018 and only expects to derive exempt financing income during 2018. It will just start to generate taxable income from its customers in 2019. The company incurs significant costs of SAR 2 million from local suppliers during the first quarter of 2018 in respect of IT costs and other costs from consultants, before any invoices are raised to customers.

ABC Financing can register on an optional basis as its annual taxable expenses exceed the voluntary VAT registration threshold. However, further consideration should be given on input VAT deduction in case of exempted financial services, for further details, please refer to section 8. More information on voluntary registration for VAT is contained at [vat.gov.sa](http://vat.gov.sa).

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

(7) Transitional Rules related to GCC states should be considered, please refer to Section 11

(8) Article 5(1), Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom, Implementing Regulations

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

(10) Article 7, Voluntary Registration, Implementing Regulations

## 4. THE VAT TREATMENT OF FINANCIAL SERVICES

Financial services can include a broad range of financial products supplied to both VAT registered customers and other customers.

Supplies of financial services to a resident person in the KSA are by default treated as exempt. However, many supplies may be treated as VAT taxable based on the consideration payable in respect of the service provided. This summary table outlines the broad principles discussed in further detail and at product level throughout the guideline.<sup>(11)(12)</sup>

<ul style="list-style-type: none"> <li>Financial services where the consideration payable in respect of the services by way of an implicit margin or spread (including but not limited to interest, spread, margin or other implicit margin)</li> <li>Equivalent income earned under Islamic financing products</li> <li>Issue or transfer of a debt security or equity security</li> <li>Provision or reinsurance of life insurance</li> </ul>	<b>VAT exempt</b>
<ul style="list-style-type: none"> <li>All other financial services provided in the KSA, where the consideration payable in respect of the services by way of fees, commissions or commercial discount</li> <li>Provision of any non-life insurance</li> <li>All financial intermediary fees</li> </ul>	<b>Taxable at 5%</b>
<ul style="list-style-type: none"> <li>Financial services provided to a recipient resident outside the KSA<sup>(13)</sup></li> </ul>	<b>May be zero-rated or outside the scope of KSA VAT</b>

Section 7 concerning Place of Supply gives further detail on financial services that are considered as zero-rated or outside the scope of VAT.

### 4.1. APPLICATION OF VAT TO FINANCIAL SERVICES – GENERAL

VAT is applied on all Financial Services supplied in the KSA by a registered Taxable Person, where the **consideration payable in respect of the service is by way of an explicit fee, commission or commercial discount (not implicit)**.<sup>(14)</sup>

**An explicit fee or commission** is an identifiable amount charged to the customer in respect of the service, whether as a discrete monetary value or a percentage of a fixed amount. **A commercial discount** is any identifiable amount which is discounted for another amount due.

That means that any supply of a financial service will be subject to VAT where the value of that supply can be readily identified by way of the discrete charge levied and which is explicitly identified. For example, in intermediary financial services, whereby the supplier is not acting as the principal for the supply of the financial product, but its activities are limited to arranging or mediating the transaction are made for an explicit fee or a commission, as the intermediary does not bear the financial risk of providing finance. VAT exemption is only available to the supplier who is providing financial services as principal charging an implicit margin and bearing the actual risk of providing the financial service.

(11) Article 29(1), Financial Services, Implementing Regulations

(12) Article 29(2), Financial Services, Implementing Regulations

(13) Article 71, Electronic Service System, Unified VAT Agreement

(14) Article 29(2), Financial Services, Implementing Regulations

Financial services providers will often not charge an explicit fee to customers, but will instead be remunerated by way of interest calculated on a periodic basis, or through an implicit margin. The implicit margin is not seen by the customer as being the consideration of the service but takes the form of a markup, spread or profit earned on the provision of finance by the supplier. Where there is no explicit fee, commission or commercial discount provided by the supplier, any remuneration will be by way of an implicit margin and therefore VAT exempt.

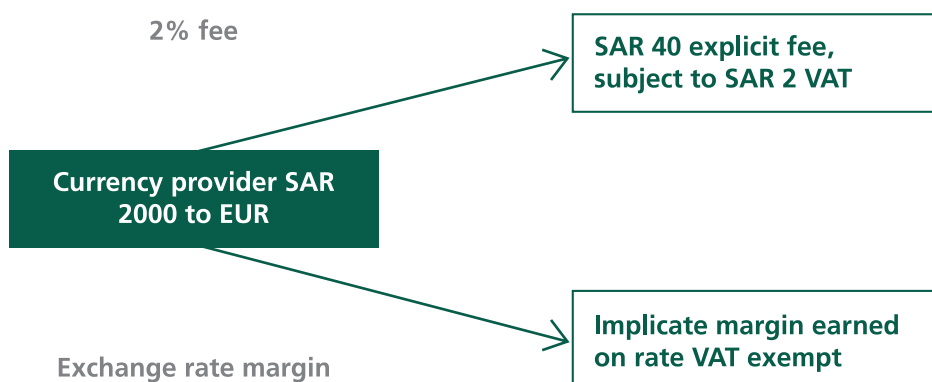
Financial service suppliers may provide both taxable and exempt financial services as part of the same overall product. These should be treated accordingly under the differing interpretations.

Example (5): ABC Bank is a KSA bank which provides a mortgage loan to a natural person (the customer) resident in the KSA. The customer will pay interest on this loan to ABC Bank based on the floating rates offered by the bank, but the bank will also charge an annual fee of SAR 220 to the customer for the administration of the loan.

The interest received by the bank is exempt from VAT, as the bank earns an implicit margin concerning a financial service. The administration fee is subject to VAT at the standard rate, as the bank charges an explicit fee for its services. The bank must charge VAT of SAR 11 on the annual fee.

Example (6): An overseas currency provider charges a commission of 2% to a KSA resident natural person (the customer) for converting SAR 2,000 to Euro. It also makes a margin by offering the customer a less favourable exchange rate than the currency provider can obtain.

The commission of 2% (SAR 40) is an explicit commission and subject to VAT. The margin earned on the differential of rates is an implicit margin and thus exempt from VAT.



## 4.2. APPLICATION OF VAT EXEMPTION – SPECIFIC PRODUCT TYPES

In Appendices I and II a detailed description of the application of the VAT exemption on a product level are included in the Financial Services sector.

### 4.2.1. Bank accounts

The operation (which includes opening, closing and pledging) of any current, deposit or savings account is considered a financial service to be exempt from VAT; except in cases where the consideration for the service is in the form of an explicit fee, commission or commercial discount where such consideration is identifiable and not implicit.<sup>(15)</sup>

(15) Article 29(2)(c), Financial Services, Implementing Regulations

Due to the commercial nature of and activities concerned with operating bank accounts, the consideration received by financial service providers will in almost all cases consist of a fee or commission (e.g. subscription fee, deposit fee). In practice, application of the VAT exemption for these services will, therefore, be insufficient. An example where the VAT exemption could apply would be interest charged on an overdraft facility.

#### 4.2.2. Card services

Credit cards, debit cards and store cards allow the purchase of goods or services, or in some cases the withdrawal of cash. Any fees charged to the customer for the subscription, renewal or use (including fees imposed on withdrawal of cash) of the card are VAT taxable.<sup>(16)</sup>

If the card services entail the granting of credit to the cardholder and the consideration is payable through an implicit margin (i.e. interest charges), the VAT exemption for the provision of credit applies.

A financial service provider that issues credit cards can be seen to provide services to multiple parties, as follows:

Firstly, to the cardholders, who will pay a VAT taxable subscription fee and possible other VAT taxable fees for the use of the cards. As described above, the granting of credit against an interest charge or another implicit margin will be VAT exempt.

The second relevant party is the business that accepts payments (e.g. a retailer) with the card. In order to be able to accept card payments, the retailer will need to contract a financial institution (the acquiring bank) and buy or rent machines to process the payments. Any fees charged in this respect will be subject to VAT at the standard rate. The acquiring bank will pay the retailer for the amount of the transaction, withholding a fee or commercial discount (in most cases a percentage of the amount for which the card was used). This fee will also be subject to VAT at the standard rate.

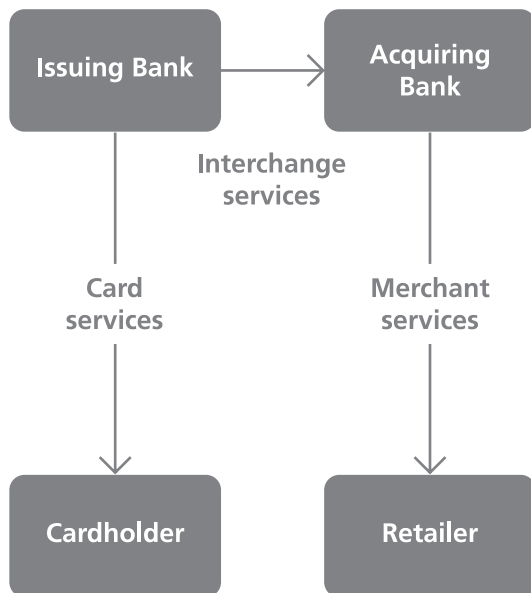
If the financial service provider that has issued the card is not the same party as the acquiring bank, the acquiring bank will need to be refunded for the payment to the retailer. This transfer of funds is not subject to VAT. The issuing bank will deduct an interchange fee from this payment to the acquiring bank or third party card provider. This fee will be subject to VAT at the standard rate. Due to the role of SAMA whereby both interchange fees payable and interchange fees receivable are communicated on a net basis to the respective banks, banks will need to determine the gross amount of receivable interchange fees and are responsible for issuing tax invoices on that basis.

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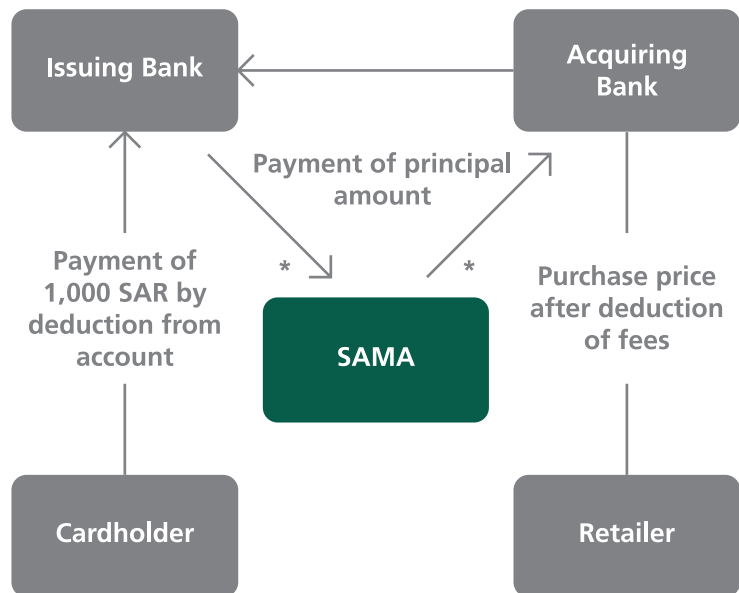
(16) Article 29(5)(a), Financial Services, Implementing Regulations

## Interchange fees

Flow of services (simplified)



Flow of payments (purchase of 1,000 SAR)



\*Payment of Interchange fee on a netted and consolidated basis

### 4.2.3. Money transfer

The issue, transfer or receipt of, or any dealing with money, or securities, notes, or orders for the payment of money is considered a financial service to be exempt from VAT, except in cases where the consideration for the service is in the form of a fee, commission or commercial discount. <sup>(17)</sup>

- Money can mean local or foreign currency (whether in physical notes and coins or transferred electronically).
- A security for money or any note or order for the payment of money is an instrument that allows the bearer to redeem it for money, such as a check, traveler's check or money order.

#### Physical Currency

The margin earned by a foreign exchange provider upon exchange of foreign currency (by the difference between the bid and ask price of the currency), or the discounting of face value traveler's checks are examples of implicit margins earned on the provision of money or money securities and therefore VAT exempt. In case an explicit fee or commission is charged for any activities (e.g. an International transfer fee), this will be considered taxable at the standard rate.

In most other cases, the supply of local currency (such as withdrawals or deposits of cash) is not made for separate consideration, unless the service provider charges a fee or commission. Any such fees will be taxable at the standard rate.

The sale of commemorative currency or currency used as a collector's item – which is not intended for use as legal tender, is a supply of goods which is subject to VAT at the standard rate.

(17) Article 29(2)(a), Financial Services, Implementing Regulations

## Electronic Money Transfers

Due to the commercial nature of modern activities concerned with cash management services and electronic banking activities, the consideration received by financial service providers will in most cases consist of a fee or commission (e.g. processing fee, electronic payment fee) and therefore subject to VAT at the standard rate.

### 4.2.4. Trade services

In order to facilitate both domestic and international trade, financial service providers offer their customers products to finance these transactions. Examples of these products are bills, (standby) letters of credit, guarantees and bankers' acceptance notes. All these products represent a promise by the issuing financial service provider that obligations under the transaction will be met (upon the fulfillment of certain conditions).

Where an implicit margin is earned from trade financing activities, such as income from discounting the face value of bills or a bankers' acceptance, or interest income, the VAT exemption for financial services will apply.<sup>(18)</sup> Any explicit fees or commissions charged to the customer for these activities are subject to the standard VAT rate, (provided those services take place in the KSA under the place of supply rules). Further detail on place of supply rules are included in Section 7 of this guideline.

### 4.2.5. CREDIT & LENDING

The provision of lending or credit may involve the issue of a debt security, and the collection of interest as revenue against that debt security.

Interest or lending fees charged with an implicit margin for any form of lending are considered VAT exempt financial services.

Example (7): A natural person resident in the KSA enters into a contract with ABC Bank, established in the KSA to fund a purchase of assets. The interest or any other implicit (profit) margin charged by ABC Bank under this contract is considered a VAT exempt financial service.

In addition, the issue or transfer of a loan or loan portfolio, debt securitization and the sale of debts or receivables are all exempt as transactions in the underlying debt security.<sup>(19)</sup>

In principle, all VAT exempt interest or lending fees received must be considered as turnover for the VAT position of the lender. However, the provision of the underlying debt security is considered a Capital Asset and excluded with regards to the VAT registration threshold or towards the total turnover in the default partial deduction calculation. Further information on partial deduction of VAT is provided at Section 8 of this guideline.

A more detailed description of the VAT treatment of asset financing is included below at paragraph 4.2.6 and 4.2.9 for Islamic finance products.

## Temporary transfer ownership of goods as collateral

As part of the provision of real estate financing or asset-backed financial services where title to assets (goods) are transferred temporarily as security or collateral, but there is no intention that the possession permanently changes, or that the lender/security holder takes physical possession of the asset. The lender/security holder is not able to dispose of the asset as his own property without the consent of the original owner and he must return it to the original owner at the end of the term.

(18) Article 29(2)(b), Financial Services, Implementing Regulations

(19) Article 29(5)(a), Financial Services, Implementing Regulations

In these cases, the ownership is held as a security only; with the right to dispose of the good not transferred (unless another event such as a default takes place).

Example (8): Sara, A Saudi resident natural person (customer) purchases a house from KSA Developer Co in August 2018 for SAR2.5 million (excluding VAT) and enters into a financing agreement with a bank. Under the agreement, KSA Developer Co sells the house directly to Sara who obtains immediate beneficial ownership, but Sara allows the bank to take formal ownership of the asset for the duration of the financing product. In this case, the following transactions apply:

1. The transfer of the house is a taxable supply from the developer to the customer. The developer charges VAT at 5% to Sara.

Supplier Developer Co: TIN 30000 7656 00003	
Recipient: Sara Abdullah	
<b>Supply of Real Estate</b>	<b>2,500,000</b>
<b>VAT at 5%</b>	<b>125,000</b>
<b>Total</b>	<b>2,625,000</b>

2. The transfer of formal ownership by the customer to the bank - for security purposes - is not a supply for VAT purposes. No invoice is issued.
3. The financing provided by the bank is a supply of financial services – and charges for financing may be taxable or exempt, depending on the nature of the charges (i.e. explicit fees or implicit fees).

In the case of a default, the lender/security holder may be able to sell the asset to recover funds owed. In this case, the asset will – for VAT purposes – be considered to be transferred directly from the current owner (which may be the original owner or the defaulting customer, depending on the contractual position) to the new purchaser who takes title and full disposal rights to the asset. Unless the financial service provider takes on full ownership (full rights to possess and dispose) to the underlying goods, it does not itself make a supply by organizing this sale on default.

Example (9): Sara in example 8 defaults on the loan. She has paid SAR1.625 million of principal but is unable to repay the remainder (SAR 1,000,000) of debt. The bank obtains consent from the customer to sell the house on her behalf to recoup the debt. It arranges a sale to KSA Corporate, who wishes to use the house for temporary housing of employees.

In this case, the sale of the house is made by Sara (the Saudi resident natural person) to KSA Corporate. The supplier is a natural person who is not carrying on an Economic Activity, and therefore will not charge VAT on the transfer. The bank acts as an agent in finding the purchaser, (i.e. acts in the name of the Saudi resident natural person to sell the house).

The bank issues an invoice on behalf of the natural person to KSA Corporate. This is not a tax invoice, as the supplier is not registered for VAT.

Invoice issued on behalf of: Natural Person (no TIN)	
Recipient: KSA Corporate	
<b>Supply of Real Estate</b>	<b>2,000,000</b>
<b>Not subject to VAT</b>	<b>0</b>
<b>Total</b>	<b>2,000,000</b>

The bank remits the funds to the defaulting customer, minus the outstanding monies owed, and a 2% fee for arranging the sale. It must charge VAT on its fee. Excerpts from the tax invoice and final statement would include:

Supplier: KSA Bank TIN: 00003 23232 30000	
Recipient: KSA Natural Person (Customer)	
<b>Fees for default sale 2% of SAR 2,000,000</b>	<b>40,000</b>
<b>VAT at 5%</b>	<b>2,000</b>
<b>Less: Excess Sale Proceeds (SAR 2,000,000 – SAR 1,000,000 balance owed)</b>	<b>(1,000,000)</b>
<b>Total Payable to Customer (Natural Person)</b>	<b>(958,000)</b>

### Syndicated loans

Under syndicate loan arrangements, a group of lenders will be involved in offering the loan. One lender will act as a 'lead' lender and be responsible for initial organization and administration of the syndicated loan, and collection of repayments on behalf of the other lenders. Where the lead lender acts on behalf of the other lenders in this way, the corresponding interest ultimately due to each syndicate lender is the VAT exempt revenue taken into account for its VAT position.

Example (10): Saudi Bank A, Saudi Bank B and Saudi Bank C are participants of a group/Syndicate which grants a loan to a single customer. Saudi Bank A is the lead bank and has the right to 40% of the proceeds. As the lead bank, it receives the entire interest amount due by the borrower and will redistribute the proceeds of the loans (i.e. the interest) to the other lenders (who are due 30% each). Saudi Bank A deducts a quarterly administration fee to the other lenders of SAR 50 for acting as lead lender.

In Q1 of 2018, Saudi Bank A receives SAR 7,200 of interest on behalf of all the lenders. VAT exempt income to be reported by Saudi Bank A is the interest amount received for its own share of the loan: being SAR 2,880. Saudi Bank B and Saudi Bank C also receive VAT exempt income to the extent of their part of the loan (SAR 2,160 each). Saudi Bank A must charge VAT on the SAR 50 administration fee for services provided to the other members of the Syndicate (Saudi Bank B and Saudi Bank C) of VAT amounting to SAR 2.5 each. This fee is a separate supply to the distribution of interest. Bank A must send an invoice to both Bank B and Bank C, whereby 5% VAT is charged on the administration fee. Bank A does not need to send an invoice concerning the payment to Bank B and Bank C for their part of the interest income. For VAT purposes, this is considered to be a direct payment from the lender to the respective members of the syndicate.

The VAT invoice of Bank A to either Bank B or Bank C will show (simplified):

Invoice No. TIN:		
Interest collected on behalf of the customer		
Administration fee	2,160	(1) - out of scope
VAT at 5%	50	(2)
VAT at 5% on the administration fee	2.50	(3) - (VAT = SAR 50 x 5%)
<b>Total to be received by you</b>	<b>2,107.50</b>	<b>(1) - (2) - (3)</b>



#### 4.2.6. Asset Financing

Asset financing arrangements will involve the provision by a financial services provider of an underlying asset across a set period. This may be made by way of a lease, hire purchase or other conditional sale arrangement.

##### Operational Leasing

There is a distinction between an asset financing product and an operational lease. An operational lease contract does not allow for ownership of that the underlying asset to pass to the recipient. It is intended that at the end of the term, the lessee will return the goods to the lessor, and enter into a new contract if required. Therefore, an operational lease does not contain a financing element and contracts are subject to VAT in full.

##### Asset Financing

Asset financing contracts prescribe for transfer of the goods to pass to the customer, or provide the customer with an option to acquire the goods at the end of the term. The transfer of the goods to the customer is needed (e.g. a long lease term which does not anticipate a transfer of the underlying goods does not qualify as a supply of goods). Asset financing contracts will include two parts:

- A principal component (purchase/supply of the asset) – reflecting the value of the underlying asset and any ancillary services provided (such as insurance). This principal component is taxable at 5%
- A financing component – reflecting the margin earned by the asset financing provider on financing of the asset. The financing component is VAT exempt if charged by way of interest or an implicit margin<sup>(20)</sup>

The periodic instalments due will therefore contain both a taxable supply of the asset and an exempt supply of financing. The asset finance provider is required to accurately determine the principal component, financing component and apply the corresponding VAT treatment to the instalments due. The value of the principal component should reflect the total value of the underlying goods and services provided. The asset financing provider must be able to evidence the calculation of the principal and financing components.

VAT is entirely due on the date when the possession of the asset is transferred to the customer (when the goods are placed at the disposal of the customer). The finance provider may ask the customer to settle the VAT amount when due, or may include the VAT amount within the asset value where the customer can pay such VAT on instalments; this is a commercial agreement between the parties which does not affect the VAT due date.

Example (11): Asset Finance Co provides a vehicle over a 5-year finance lease, with an option for the customer to take ownership of the vehicle at the end of the term. The market value of the vehicle is SAR 250,000, and the customer is also provided with insurance (valued at SAR 20,000 over five years) and a service package (valued at SAR 30,000 over five years). The taxable value of goods and services provided is SAR 300,000. The contract has been signed on 1 March 2018 and the customer will collect the vehicle on 4 March 2018.

Asset Finance Co collects monthly installments of SAR 5,708.33 from the customer across 60 months (SAR 330,000) – the SAR 30,000 represents the margin earned on financing.

(20) 29(5)(c), Financial Services, Implementing Regulations

Invoice No. TIN:	60 months	Monthly
Market value of the Vehicle (principal component)	SAR 250,000	4,166.67
VAT (250,000*5%)	SAR 12,500	208.33
Insurance (principal component)	SAR 20,000	333.33
Service package (principal component)	SAR 30,000	500.00
Financing Margin (financing component)	SAR 30,000	500.00
<b>Total</b>	<b>SAR 342,500</b>	<b>5,708.33</b>

VAT is due on the market value of the vehicle (SAR 250,000) in the date when the customer collects the vehicle i.e. 4 March 2019. Such VAT is payable also in the same date and should be fully reported within the Finance Co's VAT return of March 2018.

Asset Finance Co. will collect the VAT amount (SAR 12,500) from the customer on monthly installments along with the principal amount, the insurance, and service package and finance margin. Although, the Finance Co. should issue a separate invoice upfront for its supply of the vehicle.

Invoice No.: 1000001	Value	
Monthly Instalment	4,375	(1) VAT is applicable in Invoice No. 1000001
Insurance & service	833.33	(2)
Financing component	500	(3)
VAT at 5% on the insurance & service only	41.67	(4) - (VAT = SAR 833.33 x 5%)
<b>Total due</b>	<b>5,750</b>	(1) + (2) + (3) + (4)

#### 4.2.7. Capital/money markets

Capital markets are markets for transactions in equity and debt instruments. The issue and transfer of equity and debt securities by a principal acting on their own account, as well as margins earned on trading other securities such as derivatives, options, swaps, credit default swaps, futures and commercial bills are considered VAT exempt.<sup>(21)</sup> Short-term money market transactions are also regarded as exempt from VAT.

The VAT exemption does not apply to fees charged by brokers or other intermediary parties not acting as principal on their own account.

#### 4.2.8. Transfer of debts and debt collection

Securitization is the process whereby the receivables of existing debts are sold by the originator to a third party (often a Special Purpose Vehicle) as an outright sale. The purchaser bears full risk to any uncollected debts and may engage a third party to participate in debt collection activity.

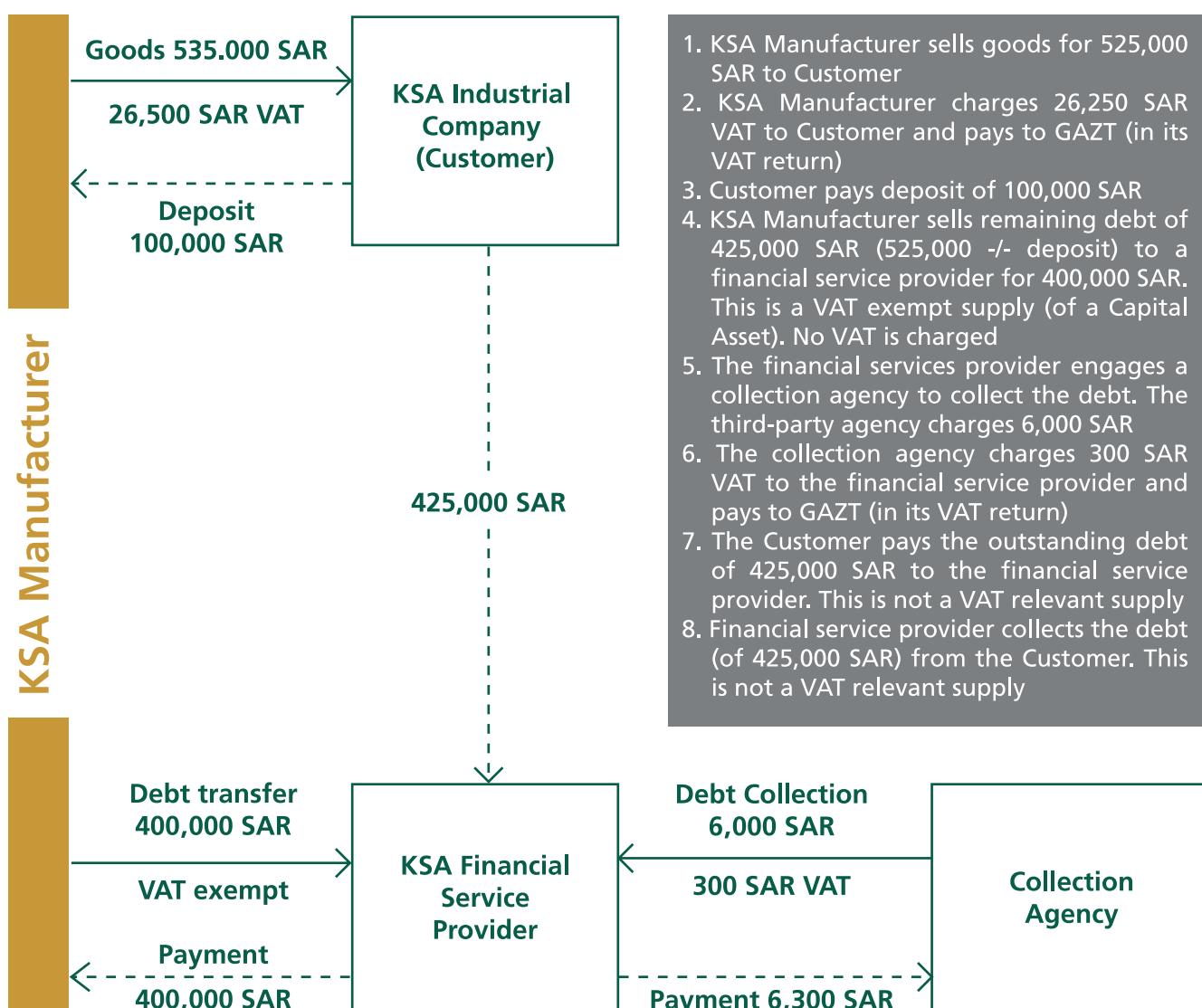
Securitization of a debt portfolio – involving the outright transfer of debt - is the transfer of a debt security, and therefore a VAT exempt supply. This does not affect any original supplies made by the originator which gave rise to the debt. VAT must still be reported on the underlying supplies made by the originator based on the relevant date of supply rules for that transaction.

In collecting its own debt, the purchaser is not making a supply. Any explicit securitization fees charged are however subject to VAT.

(21) Article 29(2)(d) & (6), Financial Services, Implementing Regulations

Example (12): A KSA manufacturer has sold and delivered machinery to an industrial customer established in the KSA for SAR 525,000. The customer paid a deposit of SAR 100,000 on delivery but has failed to pay the balance due after five months. The manufacturer sells the remaining debt of SAR 425,000 outright to a KSA financial services provider for SAR 400,000. The manufacturer remains liable to VAT on the value of the original supply (SAR 525,000) – and makes a separate exempt supply of the debt for SAR 400,000. The transfer of the debt is a Capital Asset and is not taken into account for the default partial deduction calculation.

The financial services provider engages a third party collection agency established in the KSA to collect the debt and makes a margin of SAR 25,000 from collecting the debt in full. The third party agency charges SAR 6,000 (plus VAT of SAR 300) for its services.



A commission or fee charged for the collection of debt by a third party (who does not own the debt) is a taxable supply of services. This also applied to any fees charged by a debt factor under recourse factoring arrangements where the factor does not take the ownership to the debt or the risk to non-payment of the debt. Under a factoring arrangement, the originator may assign the debt to the factor to allow for collection. The assignment of debt is not in itself a supply for VAT purposes.

For VAT purposes, the transactions are categorized as follows:

1. A manufacturer has sold and delivered machinery to an industrial customer for SAR 525,000, who has paid a deposit of SAR 100,000. Therefore, the total outstanding debt towards the manufacturer is SAR 451,250 (of which 425,000 relates to the machine and 26,250 to the VAT – 5% of 525,000). The VAT invoice has shown (simplified):

Invoice No.: 100001 Tax Reg. No.: 12345678910 Customer: The Industrial Saudi Company	<b>SAR</b>
Supply of Machinery	525,000
<b>VAT at 5%</b>	<b>26,250</b>
<b>Total</b>	<b>551,250</b>
<b>Deposit (-/-)</b>	<b>100,000</b>
<b>Total due</b>	<b>451,250</b>

- 2 The manufacturer sells the remaining debt (of SAR 425,000) for SAR 400,000 to a financial institution. No VAT is charged on this supply (of a Capital Asset).

3. The financial services provider engages a third party collection agency to collect the debt. The third party agency charges SAR 6,000 (plus VAT of SAR 300) for its services. The VAT invoice has shown (simplified):

Invoice No.: 100001 Tax Reg. No.: 22255544499 Customer: The Financial Services Company	<b>SAR</b>
Collection services	6,000
<b>VAT at 5%</b>	<b>300</b>
<b>Total</b>	<b>6,300</b>

#### 4.2.9. Islamic finance products

Islamic finance products generally simulate the intention and efficiently achieve the same result of conventional financial products, using different means to remain Sharia compliant. Instead of charging interest, the Islamic finance provider will earn a profit margin – often on the purchase and sale of underlying goods – to reflect the financing component.

The VAT treatment of Sharia-compliant financing products has an equivalent VAT treatment to the corresponding non-Sharia products to achieve the same economic result.<sup>(22)</sup> This means that the implicit profit margin included in any fees or installments payable under a Sharia-compliant financing product may be treated as VAT exempt, even where this is part of an explicit fee or commission.

Any fee which relates to the provision of an underlying good or service to the recipient, or fees for administration of the arrangement, will be taxable. Details of individual Islamic financing products and the notional VAT treatment applicable are included in Appendix I.

#### Goods sold as part of Islamic finance products

The goods purchased and sold under a Sharia-compliant product may be intended for the customer's ultimate possession or used as a temporary means of providing the Sharia-compliant product only.

(22) Article 29(3), Financial Services, Implementing Regulations

Example (13): An Islamic financing provider enters into a tawarruq / commodity murabaha agreement whereby it purchases a specified amount of metals from a seller for 20,000 SAR, and sells these to the financing recipient for 23,000 SAR with an embedded margin (of 3,000 SAR) with deferred payment over twelve months. The financing provider arranges for the seller to re-purchase the goods from the recipient of the finance for 20,000 SAR and this amount is credited to the financing recipient. In this case, the transfer of title to the goods is not intended to result in possession permanently passing to the owner. The VAT exempt income for the financing provider earned over twelve months is 3,000 SAR.

### Ijara contracts

The Ijara contract results in a purchaser obtaining an asset, with a bank or finance company providing finance over that asset by way of purchase and onwards sale of that asset. The exact contractual arrangements for an Ijara – and in particular whether the bank or finance company acts in its own name in acquiring the asset – are essential to determine the associated VAT treatment.

#### **1. Bank/Finance Company contracts in its own name**

Under Ijara contracts which result in the transfer of title for goods from an original seller to the bank/finance company – acting on its own name - and to then transfer separately onwards to the customer, the bank/finance company will purchase the asset in its own name and the (third party) supplier will charge VAT to the bank/finance company. VAT is due on the asset on the date of transferring the possession to the purchaser (the date when the goods are placed at the disposal of the customer), and a Tax Invoice should be issued.

Generally, the bank/finance company will charge monthly installments to the final customer, consisting of a principal component and a financing component. As the onward supply of the asset (from the finance supplier to the end customer), the principal component of the Ijara contract, will be regarded as a taxable supply, input VAT charged by the (third party) supplier to the bank/finance company will be deductible in full.

In cases where the supply is provided for periodic installments, a separate supply in respect of each installment takes place on the earlier of the due date for the payment of that installment or the date of actual payment.

The bank/finance company will need to charge VAT on the principal component at the date of transferring the possession to the end customer (the date when the goods are placed at the disposal of the customer), and the financing component is VAT exempt if charged by way of interest or an implicit margin. The bank/finance company is required to accurately determine the principal component, financing component and apply the corresponding VAT treatment to the instalments due. The VAT treatment and invoicing requirements are similar to those discussed for Asset Financing (4.2.6).

Example (14): An individual enters into an ijara contract with a bank for a house, which provides for the ownership of the house to pass to the individual at the end of the term. The individual contracts only with the bank do not have any contractual relationship with the original seller of the house. Under this contract, the bank makes two supplies for VAT purposes:

- The supply of the underlying asset (the house) to the individual (principle element), on which VAT is chargeable; and
- The provision of financing. The financing component of payments under the ijara are exempt as they represent the implicit profit margin derived by the bank on the ijara product

## 2. Contracts are in the name of the individual (the beneficiary).

Under ijara contracts where:

- The identity of the supplier and end customer are known upfront;
- Which prescribe the direct transfer of possession and beneficial ownership of goods from the supplier to the end customer; and
- Where the bank/finance company taking formal ownership only and never obtaining the right to dispose of the asset as owner;

The supply of goods is viewed for VAT purposes to be made from the original supplier of goods to the recipient of financing. The bank does not act in its own name in the supply of the underlying goods, other than an agent. Depending on the exact structure of the payments due under these contracts, the following supplies will generally take place for VAT purposes:

- a. The supply of underlying goods from the supplier to the consumer of finance, which is subject to VAT;
- b. The supply of administrative fees by the bank – these may be charged to the original supplier, the end customer, or both. These administrative fees are subject to VAT; and
- c. The supply of financing by way of the implicit profit margin earned by the bank on the ijara. This supply is VAT exempt.

A detailed list of Islamic finance products is included in Appendix I.

### 4.3. AMOUNTS OUTSIDE THE SCOPE OF VAT

VAT is not chargeable by a financial services provider on any amounts received which are not in respect of a supply by that financial services provider.

#### 4.3.1. Compensation payments

A payment of actual compensation for damages or charges of a punitive nature which do not relate to any supply by the financial service provider will in principle fall outside of the scope of VAT.

The application of this provision is intended to be narrow – GAZT presumes that any set charge or fee made by a financial services provider to a customer will be in respect of services provided. A charge of a punitive nature must actually penalize a customer for a breach of the contract, and should not be a fee for a service described as a penalty. Examples of qualifying penalties are included in Appendix I.

#### 4.3.2. Third party costs as a disbursement

In some cases, a financial service provider will collect payment from a customer for a supply or cost made directly from a third party. If the financial service provider acts in the name of the customer – and does not incur the cost on its own behalf – it may pass this charge on without any additional VAT. The financial service provider should not treat the cost as its own expense or deduct input VAT.

This may also include fees from government organisations, such as fees from SAMA, which are incurred by the customer but where the bank collects payment on behalf of SAMA.

In cases where the financial service provider incurs costs in its own name – even if on behalf of a customer – these should be seen as supplies received by the provider and charged onwards. The VAT treatment of these costs, when provided by the financial services provider, will be based on the applicable treatment of the underlying supply, but are generally expected to be taxable.

Example (15): ABC Financing is a KSA financing company which has entered into a financial lease contract with a customer who finances a car. The customer defaults on payment, and per the terms of the contract, the car is put up at auction. The auctioneer charges a fee of SAR 10,500 including VAT.

In case the auctioneer would charge ABC Financing for the auction fees on behalf of the named customer in default, this is not an expense of ABC Financing. ABC Financing should charge these costs to its customer as a VAT exclusive disbursement of SAR 10,500. As the auction fee is not a consideration for a supply made by ABC Financing, ABC Financing will not charge VAT of its own.

If ABC enters into the contract with the auctioneer on behalf of the defaulting customer but in its own name, it will be treated as the recipient of the service for VAT purposes (and cannot pass the cost on as a disbursement). It should recover VAT on the invoice from the auctioneer, and charge VAT of SAR 500 on a supply of SAR 10,000 to the customer. In both events, the defaulting customer is charged the same overall amount. ABC Financing's VAT invoice issued to the auctioneer will show (simplified):

Auctioneer fee	SAR 10,000
<b>VAT at 5%</b>	<b>SAR 500</b>
<b>Total due</b>	<b>SAR 10,500</b>

#### 4.4. Other - Investment Funds

Investment funds carry out investment activities on a pooled basis on behalf of individual unit-holders. Funds are not a legal entity under Saudi law but can be seen as a person capable of making and receiving supplies for VAT purposes.

A public fund can have its own personality to the extent it enters and is bound by contracts in its capacity as a separate person (or when another person, such as a fund manager, does this on its behalf).

In these cases, the public fund can, therefore, be a supplier or customer in respect of specific supplies where it is authorized to do so by the terms and conditions of the fund and by the Investment Funds Regulations. If the fund is required to or eligible to register for VAT, it should individually register itself for VAT purposes in the KSA. A fund manager or other third party entity may be required to do this on behalf of the fund.

The fund manager carries on a separate Economic Activity to that of the funds it oversees, which involves the charging of fees to the funds for its management services. The fund manager may only report VAT, and deduct Input VAT, based on its own activities. In this way, it cannot discharge VAT obligations for the funds through its own VAT return.

## 5. INSURANCE

Insurance is a contract which provides cover from an insurer for the policyholder against an uncertain event in the future. When the uncertain event materializes, the beneficiary of the policy can make a claim against the insurance company. The insured will pay a premium to the insurance company.

Depending on the insurance contract, a deductible may apply. The deductible is the amount the policyholder must pay out of pocket as a threshold before the insurance company will pay out any claim and may apply per policy or per claim as determined in the contract. Typically, insurance premiums will be lower in case of a higher deductible. The deductible is not the consideration for a supply of the insurance company and as such not relevant for VAT purposes.

The default position for all non-life insurance provided in the KSA is that contracts of insurance and all insurance products are standard rated. This includes all products defined by SAMA to be general insurance or health insurance – and any corresponding reinsurance, insurance brokerage services and other insurance related services.

Section 7 on the place of supply gives further information on when insurance contracts are provided in the KSA.

### 5.1. LIFE INSURANCE

A VAT exemption applies to the provision of life insurance. A life insurance contract is a defined term for VAT purposes:

**“any contract of conventional insurance or takaful or another form of Islamic insurance provided by a regulated provider in the KSA which results in the payment of a sum contingent on death or other significant event of human life, or a similar contract provided by a non-resident Supplier.”<sup>(23)</sup>**

For practical application, all products categorized licensed by SAMA within the savings and life insurance are considered to be life insurance for VAT purposes. This includes both the savings element and the protection element of these policies as indicated under Appendix II to this guideline.

Family Takaful products offered in the KSA are considered to be equivalent to life insurance and qualify for VAT exemption.

### 5.2. REINSURANCE

Insurance companies can choose to (partly) reinsure their portfolio, by seeking cover for existing policies from other insurance companies offering reinsurance policies. The reinsurance provider will charge a premium for covering the insurance company's portfolio (or a portion thereof), and pay an agreed amount for any covered losses by the insurance company.

The reinsurance of a life insurance contract will also be VAT exempt, if provided in the KSA under the place of supply rules.

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(23) Article 29(7) & (8), Financial Services, Implementing Regulations



### 5.3. INSURANCE BROKERAGE

Insurance brokers will act as an intermediary between the insurance company and the policyholder. An insurance broker will find the cover which meets the requirements of the customer and will help policyholders to make claims where needed. Insurance brokers will charge a commission and/or fees to the policyholder for their services. These commissions or fees are VAT taxable, regardless of whether they relate to general, health or life insurance.

### 5.4. PAYMENT OF CLAIMS

An insurance claim may be settled by payment of a monetary claim, or by the insurer agreeing to arrange or pay for repairs to return assets to their original standard. If an insurer makes a pay-out to an insured, this is not seen as a supply made by the insured for VAT purposes. No VAT obligations arise in respect of the pay-out received.

Example (16) ABC Co is a company established in the KSA (the customer). ABC Co has a property insurance policy with YXZ Co, a regulated insurance company in the KSA. A storm caused two windows to break and the customer hires a glazier to fit new windows. Claiming the costs from the glazier with the insurance policy under the policy is not considered a supply from ABC Co to YXZ Co.

Generally, insurance contracts with individuals or non-taxable persons will be calculated to allow for a payout of a VAT-inclusive amount. Contracts with VAT registered businesses who are able to deduct Input VAT will be calculated to reflect payouts on a VAT exclusive basis.

#### 5.4.1 Third party costs

A third party carrying out repairs covered by an insurance contract will generally provide services directly to the insured party, but may request payment directly from the insurer.

Payments of claims to third parties, whereby the insured is a taxable person and receives an invoice from the third party in his name will be made exclusive of VAT, as the insured can deduct any VAT charged by the third party in his own VAT return. Payment of medical insurance claims is discussed in detail in the Healthcare guideline.

Example (17): ABC Co has industrial equipment which breaks down and requires urgent repair to allow the factory to resume operations. The repair costs are SAR 400,000 (exclusive of VAT) which are fully covered by the general insurance policy with QRS Insurance Co. The repair company is instructed by ABC Co and raises an invoice to ABC Co for the repair services – for SAR 420,000 including VAT. ABC Co, as the service recipient, pays the VAT amount and passes the invoice to QRS Insurance to arrange for direct payment of the VAT exclusive amount.

a) The VAT invoice from the Repair Co to ABC Co will show:

Repair costs	SAR 400,000
<b>VAT at 5%</b>	<b>SAR 20,000</b>
<b>Total due</b>	<b>SAR 420,000</b>

If the third party contracts with and provides services directly to the insurance company, the insurance company will pay the charged VAT to the supplier and the insurance company can deduct the VAT in his VAT return. In these cases, it must be clear that the insurer is the recipient of the services.

### 5.4.2. Input tax relating to payment of monetary claims

Insurance companies cannot claim input VAT deduction in relation to payments of monetary claims to a policyholder. Input VAT deduction only permitted where a supply is made to the insurance company. In this way, there is an additional cost of insuring VAT inclusive amounts for individuals or non-taxable persons

Example (18): A natural person (the customer) has a product liability policy with QRS Insurance Co. The product covered under the policy is faulty and the natural person asks Repair Co to replace the product. Repair Co charges 5% VAT on the value of its supply. The natural person claims the monetary amount inclusive of VAT from QRS Insurance Co. QRS Insurance Co cannot deduct input VAT charged by Repair Co.

## 6. SINGLE SUPPLY OR MULTIPLE SUPPLIES

The supply of financial services will often involve the provision of two or more separate elements.

In order to determine the correct application of VAT in these cases, it must be determined whether the financial service rendered which consists of two or more elements constitutes a single supply or multiple supplies.

Multiple supplies will be recognized in situations where a bundle of different and distinct services are offered. Generally, where the customer has the option to purchase multiple services and these are reflected separately in invoicing, the applicable VAT treatment should be applied to each individual supply.

The VAT rules for financial services make a clear distinction between a consideration received by means of an explicit fee, commission or discount (i.e. VAT standard rated) and a consideration received for financial services through an implicit margin (i.e. VAT exempt). Therefore, in case such an explicit fee is charged, a separate supply of a standard rated service will be assumed.

Example (19): An overseas currency provider charges a commission of 2% to an individual for converting SAR 2,000 to Euro. It also makes a margin by offering the individual a less favourable exchange rate than it the currency provider can obtain.

The commission of SAR 40 is an explicit commission and subject to VAT of SAR 2. The margin earned on the differential of rates is an implicit margin and thus exempt from VAT. The commission is separately conveyed to the customer as an explicit fee and is charged regardless of the rate offered by the foreign exchange provider. The customer is generally aware that the exchange provider can be remunerated based on the rate offered and the commission.

In cases where a multiple supply exists:

- If each supply has the same VAT treatment, then VAT should be calculated on the full value of the supplies
- If different supplies have different treatments, the value of each supply must be appropriately calculated and VAT applied on each separate part. This will generally be the cost charged to the customer, provided this accurately reflects the relative value of goods and services supplied.

Suppliers of financial services should not seek to artificially value VAT exempt 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.

In case of a single supply, the entire supply must have the same VAT treatment (i.e. standard rated, exempt or zero-rated).

There are two main situations whereby a single supply should be recognized from a VAT perspective:

- A supply consists of multiple elements, but it is evident that one element is dominant and the other element(s) is/are to be considered ancillary to this principle supply.
- A supply consists of multiple elements, but these elements are linked so tightly that, a single supply must be recognized and splitting the elements into separate supplies would be artificial.

The most important factor to determine whether the elements must be regarded as a single supply is to determine whether the customer intends to purchase a single supply or aims to purchase two or more separate supplies. The fact that the different elements can be purchased separately from separate suppliers or even is purchased from different suppliers can be an indication for multiple supplies, but is not decisive as this can also be artificial.

Contractual clauses (i.e. elements are included separately) and invoicing arrangements (i.e. separate consideration) can help with the determination of the VAT treatment, but are not decisive in all cases, as they can be manipulated to achieve the desired VAT treatment.

## 7. PLACE OF SUPPLY OF FINANCIAL SERVICES

The place of supply rules dictate which country has the right to apply VAT to a supply of financial services. If VAT is due (if the supply is not exempt), these concepts will also determine who is responsible for VAT reporting.

### 7.1. RESIDENCE OF SUPPLIER AND CUSTOMER

The place of supply rules are, in most cases, determined with reference to the place of residence of the supplier and the customer.

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.<sup>(24)</sup>

#### 7.1.1. Dual residence

It is possible that a company or legal person will have more than one establishment and therefore be resident in two different countries for VAT purposes. This will often occur in the financial services sector where one legal entity will have branches across different countries.

In these cases, the branch or establishment which is most closely connected to the supply of goods or services will be where the legal person is resident for determining the place of supply.<sup>(25)</sup>

Example (21): ABC Bank is a bank established in the UAE and also has a branch in Riyadh. ABC Bank grants a mortgage loan to a Saudi citizen to buy a house in Riyadh. The customer visits the physical branch in Riyadh, and staff of the Riyadh branch are involved in selling and approving the loan. The loan is deemed to be granted by the Saudi branch of ABC Bank.

### 7.2. BUSINESS-TO-BUSINESS (B2B) SUPPLIES OF FINANCIAL SERVICES

As a primary rule, the place of supply of Financial Services supplied to a VAT-registered person in a GCC state is the place of residence of the customer. The table below shows how VAT will be chargeable in these general circumstances.

From Supplier ► Customer (Business)	Country where supply takes place	KSA reporting requirements (if supply is subject to VAT)
KSA VAT registered business ► KSA VAT registered business	KSA	Supplier charges VAT to customer
UAE VAT registered business ► KSA VAT registered business	UAE	Outside of KSA VAT – recipient self-accounts for VAT in UAE
UAE VAT registered business ► KSA VAT registered business	KSA	Recipient self-accounts for VAT using Reverse Charge mechanism and report it
Non-GCC supplier ► KSA VAT registered business	KSA	Recipient self-accounts for VAT using Reverse Charge mechanism

(24) Article 1, Definitions , Place of Residence, Unified VAT Agreement

(25) Article 21(4), Taxable status of Supplier and Customer, Implementing Regulations.

If services are provided by a resident supplier, according to the nature of the transaction, the supplier must charge VAT at the appropriate rate (or apply VAT exemption to exempt financial services).

If services are provided by a non-resident to a KSA VAT registered recipient, the recipient is responsible for accounting for VAT at the appropriate VAT rate upon receipt of the services through the Reverse Charge Mechanism. This does not apply where a VAT registered recipient receives exempt financial services.

There may be exceptions to this general rule in limited situations – such as for real-estate related services as discussed at 7.4 below.

The VAT registered supplier is required to charge VAT as appropriate on all supplies made in the KSA.

The provision of services to a non-GCC recipient may also be zero-rated (see section 7.5 below).

### 7.3. BUSINESS TO CONSUMER (B2C) SUPPLIES OF FINANCIAL SERVICES

Financial Services provided to all other customers (a private individual not carrying on a business, or any person not registered for VAT in a GCC state), the place of supply is the place of residence of the supplier.

Supplier ► Customer (Consumer)	Country where supply takes place	KSA reporting requirements (if supply is subject to VAT)
KSA VAT registered business ► KSA resident natural individual – not registered	KSA	Supplier charges VAT to customer
KSA VAT registered business ► Non-GCC recipient	KSA	Supplier charges VAT to customer
UAE registered supplier ► KSA private individual	UAE	No KSA VAT reporting required
Non-GCC supplier ► KSA resident natural individual – not registered	Outside KSA	No KSA VAT reporting required

### 7.4. SERVICES RELATING TO REAL ESTATE

All services which relate to Real Estate are subject to VAT in the country where that Real Estate is located. “Real Estate related services” are those services which affect or are related to a specific area of Real Estate or a specific site of immovable property.<sup>(26)</sup>

Generally, services which “are related to” Real Estate are those services where a specific area of Real Estate forms a central part of the service. By way of example, the provision of Real Estate and associated financing under an ijara or other asset financing arrangement has the provision of a specific area of Real Estate as the central part of the service. Therefore, this is a supply of “Real Estate related services”.

Any insurance taken out over a particular piece of property is also a real-estate related service. Therefore, VAT will be due on these services based on where that land is located.

Services which “affect” Real Estate are those which are designed to legally or physically alter a specific area of Real Estate. This will generally not apply to most financial services – even if they relate to a particular piece of land.

(26) Article 23(2), Real Estate related services, Implementing Regulations

Example (22): A finance provider gives a letter of credit to a KSA business to assist it to purchase a new commercial premise. The letter of credit does not itself affect or relate to a specific area of real estate – the real estate is simply the targeted use of the recipient. This letter of credit is not a Real Estate related service.

## 7.5. SUPPLIES OF FINANCIAL SERVICES TO CUSTOMERS OUTSIDE THE GCC TERRITORY

Supplies of Financial Services, which are not Real Estate related services, are subject to the zero-rate where they are supplied to a non-resident of the GCC who benefits from the service outside of GCC Territory. The zero-rate also applies to Financial Services supplies when these supplies are VAT exempt inside the KSA. This means the VAT rate of 0% applies to these services due to the fact that they are rendered to a non-resident of the GCC.

This is an important difference to the provision of VAT exempt services, as whilst in both cases the customer is not charged any VAT amount, the supplier of zero-rated services retains the right to deduct the input tax associated with zero-rated supplies.

In order to apply the zero-rate, the supplier must ensure it can meet each of the following conditions / criteria:

- a. The supply of those services does not take place in any Member State under “special cases” described in the Unified VAT Agreement.<sup>(27)</sup>
- b. The supplier has no evidence that the customer is resident in any GCC Member State and has evidence that the customer is a resident outside the GCC Territory. GAZT expects this evidence will generally be satisfied in practice by the issue of an invoice or other correspondence to a non-GCC address. Any publicly available information showing the recipient having an office or branch in the GCC should give result in further investigation.
- c. The benefit of the Financial Services is not received by the customer when that person is situated in the KSA. A non-resident customer with no GCC establishment may still have employees or other representatives in the KSA on a temporary basis, who can receive the benefit of services in the KSA. Where this happens, the zero-rate should not apply.
- d. The services are not related to any tangible goods or property located in the GCC Territory during the supply. This should be seen to include any services which affect or have the tangible goods or property as a central part of the service. Insurance on moveable property situated in the GCC should therefore not qualify for zero-rating, even where provided to a non-GCC resident.
- e. The supplier intends for the Financial Services to be enjoyed outside the GCC Territory. The supplier should anticipate that the recipient will use the services in the course of activities outside of the GCC.
- f. The supplier has no evidence that the benefit of the Financial Services will be enjoyed within the GCC Territory. This requirement looks at the original supply by the supplier: the customer should ultimately benefit from the services outside the GCC. The supplier should not zero-rate if his services are directly provided to a person in the GCC (but paid for by a non-GCC customer). The onwards provision of services by the customer which is later enjoyed in a GCC country does not breach this requirement.

Example (23): A broker charges a commission fee of SAR 750 to a German investor for carrying out trading of shares on Tadawul. The customer does not have any establishment or place of residence in the GCC. Whilst the commission relates to the trading of equity securities on the Saudi stock exchange, the customer does not receive the services or the benefit of the services in the GCC, and the services do not relate to tangible goods or property in the GCC Territory. The broker may apply the zero-rate to the commission fee.

Example (24): A natural person resident in Egypt (non-resident customer) visits a currency kiosk at Riyadh airport to exchange EGP to Saudi riyal whilst travelling on business. The currency provider charges a commission to the non-resident customer. The benefit of the currency conversion is received by the non-resident customer in the KSA. VAT will be charged on the currency provider’s commission.

(27) Article 33(a), Services provided to non-GCC residents, Implementing Regulations and Articles 17-21, Place of Supply: Special Cases, Unified VAT Agreement

## 8. INPUT VAT DEDUCTION

### 8.1. GENERAL PROVISIONS

A VAT-registered person may deduct Input VAT charged on goods and services it purchases or received 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 requirement of economic activity, the Implementing Regulation states that the Taxable Person may deduct input VAT charged on goods and services purchased (supplied) in the course of carrying on its economic activity to the extent that such purchased make him able to provide the following supplies<sup>(28)</sup>:

- Taxable supplies – including supplies subject to zero rate.
- Internal supplies
- Supplies that would have been subject to VAT if made in KSA

Therefore, input VAT deduction is only applied to the extent of receiving supplies in the course of carrying on economic activities.

As a general rule, input VAT which is related to the taxpayer's VAT exempted activities, such as Financial Services (except in cases where the Consideration payable is by way of an explicit fee), is not deductible as input VAT.

Input VAT may not be deducted on any costs not incurred as part of the economic activity (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 made during that period.

Input VAT may only be deducted where the Taxable Person holds a tax invoice. GAZT may also accept alternative evidence of the amount of Input VAT paid or payable in certain instances.

### 8.2. SUPPLIES FROM GROUP ENTITIES/ESTABLISHMENTS

Supplies of taxable goods or services from related companies resident in the KSA will also attract VAT as group entities are considered separate taxable persons which can supply services to each other. Companies who are part of the same VAT Group will disregard all supplies made between group members, as the VAT Group is considered to be a single taxable person. Further information on VAT grouping is provided in a separate guideline.

There is no likewise supply made – and no VAT chargeable – for charges between different branches or divisions of the same legal person.

### 8.3. SUPPLIES FROM FOREIGN SUPPLIERS/ESTABLISHMENTS

Financial services providers often incur costs from foreign service providers (including group entities). Where a VAT registered person in the KSA receives services from a non-resident, the place of supply of that service is generally considered to be the KSA. This applies both to suppliers from other member states of the GCC and to non-GCC established suppliers.

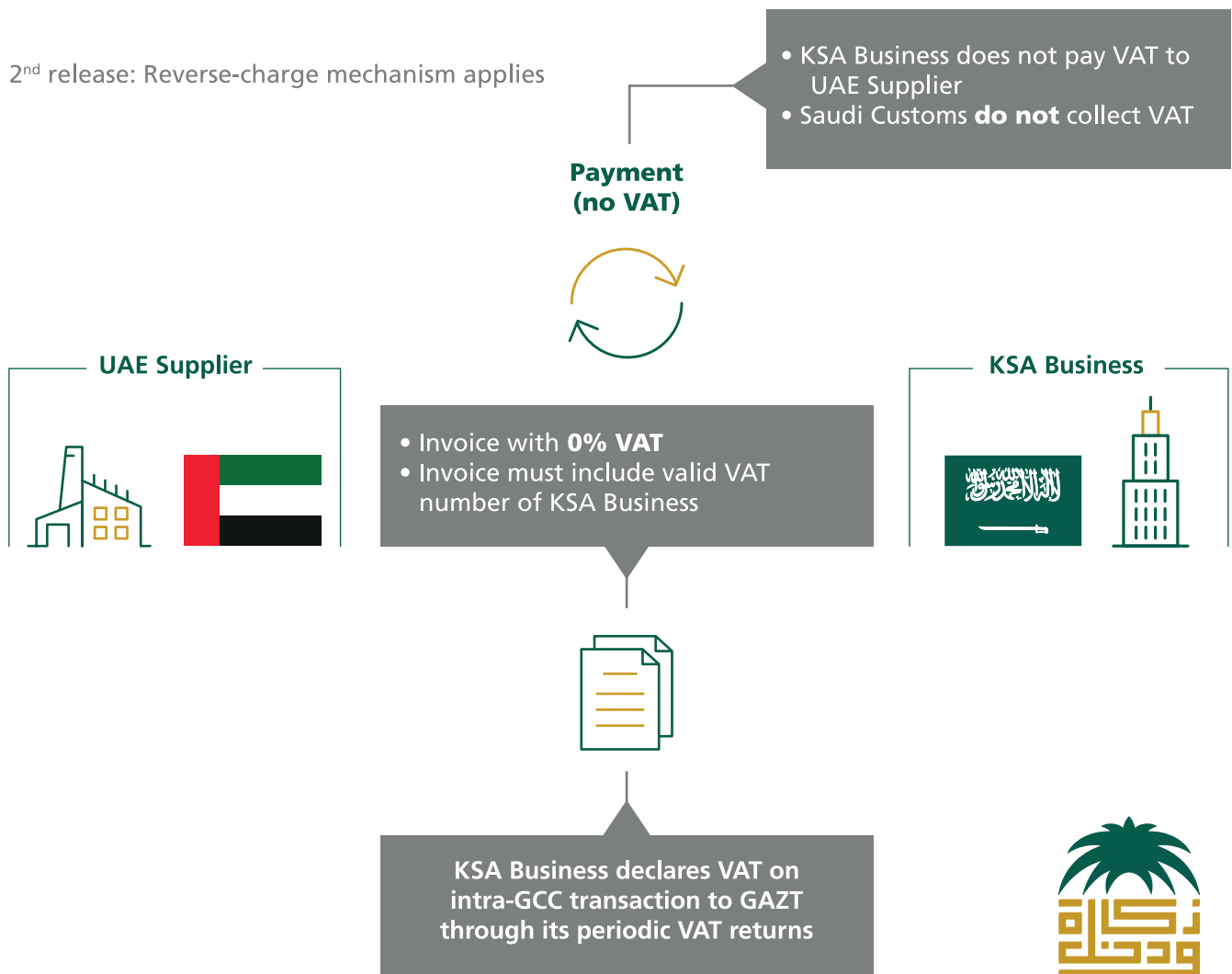
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(28) Article 49(1), Input Tax Deduction, Implementing Regulations



The customer (resident in KSA) should determine if it is obliged to self-assess VAT on the received services. This determination is done in accordance with the applicable VAT laws applying in the KSA: The Unified VAT Agreement, and the VAT Implementing Regulations. If a service is considered VAT exempt from a KSA VAT perspective, no reverse charge VAT needs to be reported. In case the exemption does not apply, 5% KSA VAT needs to be self-assessed on the value of the received supply. A more detailed description of the reverse charge mechanism is included in the VAT manual at [vat.gov.sa](http://vat.gov.sa).

Example (25): An electronics store resident in the KSA purchases a software subscription from a UK firm for 2,000 SAR. The software is supplied electronically. The electronics store must use the reverse charge mechanism to account for input VAT.



	Amount (SAR)	Adjustment (SAR)	VAT Amount (SAR)
<b>VAT on Sales</b>			
-1 Standard rated sales	2,000,000 ?	0,00 ?	1,000,000
-2 Sales to customers in VAT implementing GCC countries	0,00 ?	0,00 ?	
-3 Zero rated domestic sales	0,00 ?	0,00 ?	
-4 Exports	0,00 ?	0,00 ?	
-5 Exempt sales	0,00 ?	0,00 ?	
-6 Total Sales	2,000,000	0,00	1,000,000
<b>VAT on Purchases</b>			
-7 Standard rated domestic purchases	0,00 ?	0,00 ?	0,00
-8 Imports subject to VAT paid at customs	0,00 ?	0,00 ?	0,00
-9 Imports subject to VAT accounted for through reverse charge mechanism	2,000,000 ?	0,00 ?	0,00 ?
-10 Zero rated purchases	0,00 ?	0,00 ?	
-11 Exempt purchases	0,00 ?	0,00 ?	
-12 Total purchases	2,000,000 ?	0,00 ?	0,00
-13 Total VAT due for current period			1,000,000
-14 Corrections from previous period (between SAR 5,000±)			0,00 ?
-15 VAT credit carried forward from previous period(s)			0,00 ?
Net VAT due (or claim)			1,000,000 ?

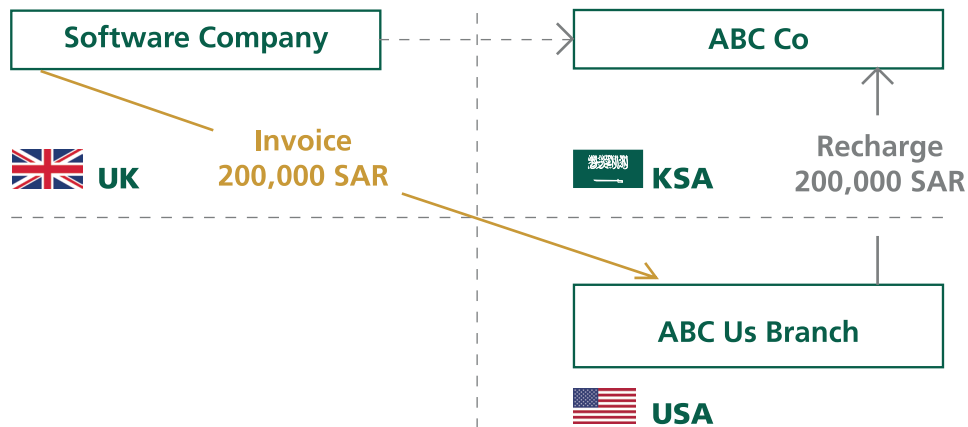
**Picture assumes the store has standard rates sales of 20,000 SAR and had no VAT exempt transactions in the last year (and therefore full deduction of Input VAT).**

Charges from foreign establishments of the same legal person as an establishment/resident in the KSA (KSA company branches, foreign companies with registered branches in KSA) are in principle not considered supplies of services for which VAT needs to be self-assessed. This is because different establishments of the same legal person – even those residing in different countries – cannot conceptually provide supplies to itself. This is not applicable to independent establishments owned by another establishment regardless the equity/ownership.

Example (26): ABC Co is headquartered in the KSA and has a branch in the UAE. The UAE branch has developed GCC wide marketing materials and receives compensation from the head office in the KSA. This consideration is not considered to be a supply for VAT purposes as it would be a charge within the same legal person.

An exception to this principle applies in case the foreign establishment has purchased services from a supplier who is not resident in the KSA, and these are subsequently enjoyed in the KSA by the KSA establishment without any material alteration, enrichment or other activity from the foreign establishment to the original supply. In this case, the foreign establishment contracts with the service provider, but the KSA establishment is, in fact, the actual and immediate beneficiary for the service. Therefore, the KSA establishment is itself deemed to receive the supply and is obliged to self-assess VAT on the value of this supply (reverse charge mechanism).

Example (27): ABC Co is headquartered in the KSA and has a branch in the USA. The USA branch signs a contract with a UK established supplier of software which will be used by the KSA head office without alteration in the USA. The software supplier sends an invoice for 200,000 SAR to the USA branch of ABC Co. The USA branch on-charges this costs to the KSA head office. The KSA head office should be seen as receiving the service directly from the software supplier and will need to self-assess VAT on the value (i.e. 200,000 SAR) of this supply in its periodical VAT return.



## 8.4. OUTSOURCING

Outsourcing is very common in the financial services sector, especially for back-office and mid-office activities. Suppliers that carry out the outsourced activities generally charge a fixed fee for services provided, or charge a salary amount plus commission for their introductory services. The standard VAT rate will apply to any fees for services provided (including their commission for introductory or similar services). Depending on how the outsourced services are used by the financial services provider, VAT deduction may not be available in full for the VAT incurred.

If the financial service company has these activities performed by its own staff, VAT is not paid on the internal staff costs. Employees are not considered to perform an economic activity, and therefore no VAT is due on salaries.<sup>(29)</sup>

Example (28): ABC is a KSA Bank. Due to reorganizations in the administrative department, back-office activities are outsourced to a third party, XYZ LLC, which is also a KSA resident company. XYZ LLC receives a fee of 1,000,000 SAR to perform the back-office activities. XYZ LLC will charge 5% VAT on its invoice for the back-office services.

<sup>(29)</sup> Article 37(3), Related Persons, Implementing Regulations

In cases where a supplier provides an employee to a customer, and the outsourced employee is under the direction of the customer and acts in a manner equivalent to an employee, the provider of outsourced labour may view the on-charge of the salary cost for the outsourced labour as a direct disbursement. VAT must still be charged on the agency fee.

In order to determine whether the relationship between the employer and the outsourced employee is an employment relationship, GAZT may consider a number of factors including – but not limited to – the actual location where the employee carrying on works (offices or locations), whether the employee is receiving direct orders from the employer or if the employer evaluates the employee.

Returning to example (28): If ABC directs specific employees and treats them as employees or an equivalent manner to their employees, XYZ LLC may denote separate charges for the on-charge of salary and for the introductory fee. If the salaries paid to the outsourced employees for the period of the outsourcing are SAR 900,000, these may be separately charged as a disbursement without VAT. XYZ LLC must charge VAT on any markup or service fee (in this case, VAT is charged on the remaining SAR 100,000).

The manner of outsourcing may, therefore, lead to different treatments for financial service providers. For further details on Input VAT deduction see the below sections 8.5, 8.6, and 8.7.

## 8.5. APPLICATION OF INPUT VAT DEDUCTION TO FINANCIAL SERVICES

### 8.5.1. Timing of Input VAT deduction

In general, an Input VAT deduction should be available in the monthly or quarterly period where the goods and services were purchased: provided the taxpayer can show these relate to (current or future) taxable transactions. The person does not need to have made a specific onwards supply in order to deduct the Input VAT as a credit.

Deduction of Input VAT is based on the intended use at the time of purchase.

Example (28): ABC is a KSA Company that purchases a new computer from PC Co. PC Co issues an invoice for the value of the computer (1,000 SAR) and charges 5% (50 SAR) to ABC. ABC purchased the computer to be used to administer the rent of safety deposit boxes. This is a taxable activity. The computer will be used as soon as the new software is operational, which can take a few months after the purchase date. It is expected at the time of purchase by ABC that the computer will not be used for other activities. ABC Bank can deduct the entire amount of VAT charged by PC Co in the VAT return in which it will need to report the invoice of OC Co.

### 8.5.2. Capital Assets

Capital assets are material and immaterial assets that form part of a business's assets allocated for long-term use as a business instrument or means of investment.<sup>(30)</sup> Input VAT deduction is available upfront based on the intended use at the time of purchase.

Example (29): ABC is a KSA Bank that purchases a property to use exclusively for safe custody services, which are VAT taxable. The supplier sells the property for an amount of 5,000,000 SAR and charges 250,000 SAR to ABC Bank. ABC Bank can deduct the full amount of VAT (i.e. 250,000 SAR) in its VAT return in which the invoice must be reported due to the intended use for exclusively VAT taxable activities.

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(30) Article 1, Definitions, Unified VAT Agreement

Taxpayers are required to monitor the usage of movable tangible capital assets and intangible capital assets for a period of 6 years. 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.<sup>(31)</sup>

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

## 8.6. PARTIAL DEDUCTION: ATTRIBUTION OF 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<sup>(32)</sup>:

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

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<sup>(33)</sup>:

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

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

In a financial services context, this generally results in the exempt interest or profit margin counting towards total supplies, but the underlying value of the entire security being disregarded. This provides a more accurate comparison to the taxable fee income of financial service providers.

Example (30): ABC provides both lending services against interest (VAT exempt) and taxable fees for operating current accounts (charged with VAT).

(31) Article 52, Capital Assets, Implementing Regulations

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

(33) Article 51(3), Proportional deduction of Input Tax, Implementing Regulations

During 2019, it had the following outputs and inputs

<b>Sales and outputs (SAR)</b>	<b>Value</b>	<b>VAT charged</b>	
Fees charged to customers	400,000	20,000	
Interest derived on margin	600,000	-	(VAT exempt)
Provision of new loans	3,500,000	-	(out of scope)
<b>Expenses and inputs</b>	<b>Value</b>	<b>Input VAT</b>	<b>VAT deduction</b>
Relating to current accounts	150,000	7,500	7,500
Relating to lending against interest	60,000	3,000	-
Overheads – not attributed to any activity	200,000	10,000	Proportional: 4,000

ABC can deduct input VAT directly relating to its taxable sales. For its overheads, it must complete the value of taxable and exempt supplies, less the provision of new loans (which is a capital asset)

$$\text{Proportional recovery: } \frac{\text{Total Taxable Supplies}}{\text{Total Taxable plus Exempt Supplies}} = \frac{400,000}{1,000,000} = 40\%$$

ABC's proportional deduction of Input VAT on overheads is 40% x 10,000 = SAR 4,000

## 8.7. SEEKING AN ALTERNATIVE PROPORTIONAL RECOVERY METHOD

Alternative proportional attribution methods may be sought (for overheads or non-attributable expenditure only), using other cost drivers than the value of supplies used in the default method. A Taxable Person may submit an application to use an alternative method, in cases where that alternative method is more accurately reflects the use of inputs than the default method.<sup>(34)</sup>

To request an alternative method, a submission must be made to GAZT outlining:

- The effect of the default turnover method on VAT recovery in the current business activities and evidencing why this does not accurately reflect the use of inputs.
- The suggested alternative method which uses an alternative driver to apportion non-attributable costs on a proportional basis.
- An explanation of how the alternative method will result in a more accurate representation of use of inputs.

GAZT may approve alternative methods in cases where it is satisfied that these better reflect the actual use of VAT incurred, and can be appropriately reviewed on a regular basis.

An alternative method may only be used after formal notice of permission has been provided by GAZT. This notice will specify the time period for which the alternative method can be used.

<sup>(34)</sup> Article 51(8), Proportional deduction of Input Tax, Implementing Regulations

## 9. VAT REPORTING

### 9.1. DATE OF SUPPLY

For the supply of financial services, VAT becomes due on the date on which the service performance was complete.<sup>(35)</sup> 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.

In cases where the recipient pays a deposit or any other amount to the supplier before the transfer or issue of an invoice, VAT becomes payable in respect of that upfront payment only. The payment of a security deposit to a notary or other third party, which is held and not made available to the supplier, does not result in VAT becoming due.

Where the financial services are not exempt and viewed as a continuous supply of services which requires payment of periodic installments, each installment is viewed as a separate and successive supply. VAT becomes due on each supply at the earlier of the installment due date or actual payment. It is worth mentioning that a supply of goods (assets) under an Ijara/finance lease/hire purchase is considered as a one-off supply; VAT becomes due on the date which the goods (assets) are placed at the disposal of the customer regardless of the settlement arrangements.

If no periodic installments are set out in the agreement (and a separate invoice is instead issued for each supply), VAT becomes due at the earlier of the invoice date or actual payment.

### 9.2. 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 will be provided in a separate guideline.

For taxable supplies subject to the standard 5% rate, VAT is charged at 5% of the total value of the supply.<sup>(36)</sup> 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 below in chapter 11.

### 9.3. ISSUING INVOICES

A taxable supplier must issue a tax invoice for each taxable supply made to any other VAT-registered person or to any other legal person, or must issue a simplified tax invoice in the event that the value of the supply is less than SAR 1,000, or issue a simplified invoice for supplies made to an end consumer, by no later than fifteen days following the end of the month in which the supply is made.

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(35) Article 23(1) & (2), Date of Tax due on Supplies of Goods and Services, Unified VAT Agreement

(36) Article 25, Tax Rate, Unified VAT Agreement & Article 26, Supply Value of Goods and Services, Unified VAT Agreement

The tax invoice must clearly detail information such as, for example, the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged.<sup>(37)</sup> If different rates are applied to the supplies, the value of each item must be separately specified, as well as the VAT applied to each item. The tax invoice may be issued in the form of a commercial document, provided that the document contains all of the requirements for the issue of a tax invoice are set out in the Implementing Regulations.

Further information on the requirements for tax invoicing can be found in the VAT manual at [vat.gov.sa](http://vat.gov.sa).

## 9.4. 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 businesses with an annual turnover 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.

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.

More information on filing of VAT returns is provided in the VAT Manual.

## 9.5. RECORDS

All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable on a transaction and in a VAT return. This will generally include:

- Tax invoices issued and received;
- Books and accounting documents;
- Contracts or agreements for large sales and purchases;
- Bank statements and other financial records;
- Import, export and shipment documents; and
- Other records relating to the calculation of VAT

Records may be kept in physical copy, or electronically where the conditions specified in Regulations are met to do so, but must be made available to GAZT on request.<sup>(38)</sup>

All records must be kept for at least the standard retention period of 6 years. A longer minimum retention period is required for invoices or records that relate to movable capital assets to be 11 years, and 15 years for immovable capital assets.<sup>(39)</sup>

(37) For more information on the requirements for tax invoicing please refer to Article 53(5), Tax invoices, Implementing Regulations

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

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



## 9.6. 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](http://vat.gov.sa).

## 9.7. 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).<sup>(40)</sup> 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:

- 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.

## 9.8. 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.<sup>(41)</sup>

Further information on correcting errors can be found on [vat.gov.sa](http://vat.gov.sa).

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(40) Article 75, Rulings, Implementing Regulations

(41) Article 63, Correction of returns, Implementing Regulations

## 10. PENALTIES

Penalties or fines may be imposed on taxpayers for violations of VAT requirements set out by the VAT Law or the Implementing Regulations.<sup>(42)</sup>

Description of offence	Associated fine
Submitting false documents with the intent of evading the payment of the VAT due or to reduce its value	<ul style="list-style-type: none"> <li>• At least the amount of the VAT due</li> <li>• Up to three times the value of the goods or service</li> </ul>
Moving goods in or out of the Kingdom without paying the VAT due	<ul style="list-style-type: none"> <li>• At least the amount of the VAT due</li> <li>• Up to than three times the value of the goods or service</li> </ul>
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 VAT calculated and the VAT due
Failure to file VAT return in time	5-25% of the VAT that should have been reported
Failure to pay the VAT in time	5% of the VAT due for each month or part thereof
Collecting the 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
Violation 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 fine for the second offense may be doubled.

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

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

## 11. TRANSITIONAL RULES RELATED TO FINANCIAL SERVICES

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

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

### 11.1. Actual date of supply

Any supplier who issues an invoice or receives consideration before 1 January 2018 for a supply where the actual supply of goods or services takes place after 1 January 2018 must charge VAT based on the **actual date of the supply**.<sup>(43)</sup> This ignores the rules to move the date of supply forward for a tax invoice or payment, and prevents VAT being avoided by early payment or invoicing.

Example (31): ABC Bank will charge an administration fee to a natural person (the customer) for a transaction that takes place in February 2018. ABC Bank already requests and receives payment in advance from its customer for the administration fee in December 2017. As the actual date of supply service for which the administration fee is charged takes place in 2018, ABC Bank should charge 5% VAT on the administration fee.

Supplies which actually take place in full before 1 January 2018 are not subject to VAT. This is regardless of whether an invoice is issued or the consideration is received in 2018.

#### 11.1.1. Actual date of supply for existing Ijara contracts

In the case of contracts relating to the financing of goods (assets), through finance lease contracts or leasing culminating in acquisition of ownership, or leasing (ijara), the bank or financial institution enters into the commercial transaction through its purchase of the goods (assets) desired to be acquired in the name of the bank or the financial institution from the supplier of the goods (the assets). The supplier of the goods (the assets) will issue a tax invoice in the name of the bank or institution, and the bank or institution will then supply those goods (assets) to the lessee (the customer) under a leasing system or leasing culminating in acquisition of ownership, and will collect the consideration over a period of time to be agreed between them under a written agreement

The agreement shall provide for the entitlement of the lessee (customer) to purchase the goods (assets) after payment of all of the instalments agreed, and the bank will collect the consideration for the goods (the assets) in addition to interest or finance profit from the customer in fixed periodical instalments, and at the end of that period ownership of the goods (assets) will be transferred to the lessee (customer).

GAZT takes the view that these contracts are contracts of supply (sale) of goods (assets) by way of financing, to which the provisions and definitions pertaining to non-continuous supplies apply (one-off supply of goods), taking place on the date that the goods (the assets) are placed at the disposal of the customer.

For contracts concluded after 1 January 2018, VAT is payable on such supply at the date of delivery of the goods; at the date of issuance of the tax invoice or at the date of receipt of the partial or full payment and within the amount received, whichever is earlier. This supply is not treated as a continuous supply.

If a contract is concluded before 1 January 2018, and the underlying asset has been actually supplied to the customer prior to 1 January 2018, VAT will not be applied to the principal component of the contract (the value of the asset supplied) and no VAT is due for any installment paid starting in 2018.

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

The same tax treatment will apply to real-estate related finance products made before 1 January 2018, where no VAT applies to the supply of the underlying property the possession of which was transferred to the customer prior to 1 January 2018.

## 11.2. CONTINUOUS SUPPLIES SPANNING VAT INTRODUCTION DATE

As per the VAT law, all services provided on a continuous basis, including financial services will only be subject to VAT to the extent these services take place after 1 January 2018.<sup>(44)</sup> No VAT is applied on the continuous supplies made before 1 January 2018.

The supplier must split the value of these supplies between the period before 1 January 2018 and the period thereafter in the most appropriate way reflecting the actual supply of goods or services to the customer.

Example (31): A credit card provider makes an annual charge to its customers for providing the card facility, and also charges VAT-exempt interest where extended credit terms are taken up by the customer. The credit card provider issues an invoice on 29 October 2017 for the annual fee for the one-year period from November 2017 to October 2018. The agreed price is SAR 120.

The annual fee relates to a facility provided to the customer throughout the year – and is therefore a continuous supply. Regardless of the date of the invoice, VAT should only be applicable to the portion performed after 1 January 2018. For an annual contract, this would be split evenly based on the contract periods. Assuming the card provider has agreed its fee to be VAT-inclusive, the invoice will therefore show:

Goods and Services provided	Value (SAR)	VAT charged	
Card facility for 1 November 2017 – 31 December 2017	20	-	<b>(Portion performed before 1 January 2018)</b>
Card facility for 1 January 2018 – 31 October 2018	95.24	4.76	<b>(Portion performed on/after 1 January 2018)</b>
<b>Total amount due</b>	<b>115.24</b>	<b>4.76</b>	<b>120</b>

In all cases, the card issuer may not collect the tax before 1 January 2018 and shall issue an additional invoice for the amount of the tax due and collect it on or after 1 January 2018 and then report it in the first tax return of 2018.

## 11.3. RESIDENTS IN GCC STATES WITHOUT AN INTRODUCED VAT SYSTEM

In many cases, the rules for determining the application of VAT to financial services depend on whether a supplier or customer is a resident in the GCC Territory, or if the person is Taxable in another GCC Member State.

In all cases where another GCC State does not yet have a domestic VAT law in effect to local supplies of goods or services or no Electronic Service System in place, VAT will be determined on the basis that<sup>(45)</sup>:

- Territory of that state is outside the GCC Territory;
- Residents of that state will be considered non-GCC residents (unless they are also resident in another GCC State which has introduced VAT); and

(44) Article 21(3), VAT Law and Article 73, Transitional Provisions, Unified VAT Agreement

(45) In all cases, The Electronic Service System should be implemented in all GCC States in order to consider supplies as Internal Supplies - Article 79(6), Transitional provisions, Implementing Regulations

- Businesses in that state will not be Taxable Persons until VAT is introduced and they have registered for VAT with the relevant authority, as well as the implementation of the provisions of the Internal supply rules

Example (33): ABC is a KSA resident company and provides financial services to an individual in Oman on 14 February 2018, which are used by the customer in Oman. If Oman has not introduced VAT by this date, this will be considered the provision of services to a customer outside of GCC Territory, where the goods are used outside of GCC Territory. On this basis, ABC may zero-rate the supply of these services.

#### 11.4. RELIEF FOR CONTRACTS NOT ANTICIPATING THE APPLICATION OF VAT ('GRANDFATHERING')

The transitional provisions for the imposition of the zero rate may be applied to contracts binding on both parties, which did not anticipate the introduction of VAT, provided that the terms and conditions of the contract did not include either of the following:

- Reference to the contract price including or not including VAT, or taxes generally; and
- Any provisions relating to a change in the contract price in the event of the introduction of VAT or taxes on goods and services

GAZT considers that a reference to any of the following is to be treated as a reference to VAT:

- Value-added taxes,
- Ad-valorem taxes,
- Consumption taxes,
- Sales taxes,
- Transactional taxes, and
- A general reference to "taxes" (unless "taxes" is defined to not include any of these terms)

##### 11.4.1. Eligible contracts

The transitional provisions for the application of zero rate to contracts made before 30 May 2017 permit the application of the zero rate to supplies made under certain existing contracts that qualify for the application of the transitional provisions to those contracts, which extend up to the date of expiration or renewal of the contract, or until 31 December 2018, whichever is the earlier.<sup>(46)</sup>

This allows additional time to the suppliers and customers, who had entered into long-term contractual obligations in which the application of the VAT was not anticipated, to review those contracts and to agree the correct value. The transitional provisions for the application of zero rate will apply only in the event that the existing contracts satisfy all of the three conditions at the same time.

1. The contract was entered into before 30 May 2017. The date the contract is entered into is the date on which it was signed or becomes binding on the parties. Contracts which were entered into before this time but have been subsequently renewed or updated will be considered as entered into on the renewal or update date.
2. The customer is entitled to deduct Input VAT in relation to that supply in full, or is a Government entity or other "Eligible Person" able to claim a refund of the VAT incurred on purchases. It is not necessary that the customer may be fully taxable or able to fully deduct input VAT on all his activities for grandfathering relief to apply to that supply. Supplies made to a customer who will not be VAT registered with GAZT (or will not be registered as an Eligible Person) will not qualify for this relief.

<sup>(46)</sup> Article 79(3), Transitional provisions, Implementing Regulations

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. Further detail on certification is set out below.

The zero-rate applies to supplies included under existing contracts to which the transitional provisions for the application of the zero rate apply, made until the earliest of:

- The date of expiry of the contract;
- The date the contract is renewed; or
- 31 December 2018

All supplies made after any of the above-mentioned dates are chargeable with VAT as normal, without the transitional provisions of the application of the zero rate applying. Further, the transitional provisions for the application of the zero rate apply only to supplies which would have been subject to VAT under the general rules of the VAT Law and the Implementing Regulations to the Law (and which the customer would have been able to deduct Input VAT in full). The transitional provisions cannot be used to apply the zero-rate to supplies which are VAT exempt or outside the scope of VAT.

Example (34): XYZ is a KSA resident company which has a three year contract for a financial lease with a KSA registered business (customer) entered into in July 2016, where the customer has an option to purchase the asset at the end of the term. The contract involves both the supply of an underlying asset to the customer, which is a taxable supply and the provision of financing, which is VAT exempt.

The grandfathering relief cannot be applied to the exempt financing made under this contract. However, if the customer certifies that it can deduct input tax in full the remaining criteria are fulfilled, XYZ may apply the zero-rate to the principal instalments until the earlier of the date the contract is renewed or 31 December 2018.

### 11.4.2 Certification

Further rules on grandfathering and certification are provided in a separate guideline. Key points relevant for the financial services industry are:

- The customer should provide a response to a supplier on request, without unexplainable delay.
- Certification should relate to the customer's ability to recover VAT on that particular supply (or those particular supplies), and is not a confirmation that the customer can deduct VAT in full on all supplies received
- A written certification can be made over 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](http://vat.gov.sa); or contact us on the following number: **19993**.

## APPENDIX I: LIST OF PRODUCTS

Product	Consideration	KSA VAT Treatment ***
<b>1. BANK ACCOUNTS</b>		
<b>1.1. Current/savings/ deposit accounts</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Teller withdrawal fee<sup>^</sup></li> <li>• Certified cheque charges</li> </ul>	
	Annual Percentage Rate / other implicit consideration	Exempt
	Charges of a punitive nature* <ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	Outside
<b>1.2. Electronic Funds Transfer</b>	<ul style="list-style-type: none"> <li>• All fees / commissions / commercial discounts</li> <li>• ATM Withdrawal fee<sup>^</sup></li> <li>• Money Transfer (International or local)</li> </ul>	Standard rate
	Annual Percentage Rate / other implicit consideration	Exempt
	Charges of a punitive nature* <ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	
<b>3. Cheque books</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Additional cheque book issuance charges</li> <li>• Cancellation of a certified bank cheque</li> <li>• Default check fee</li> <li>• Request for copy of a cheque</li> </ul>	
	Annual Percentage Rate / other implicit consideration	Exempt
	Charges of a punitive nature* <ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	Outside scope
<b>4. Certification</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Certification fee for Balances</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Charges of a punitive nature* <ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	Outside scope
<b>5. Bank Statement charges</b>	All fees / commissions / commercial discounts	Standard rate

<b>5. Bank Statement charges</b>	<ul style="list-style-type: none"> <li>• Balance enquiry fee<sup>^</sup></li> <li>• Statement of account from branch</li> </ul>	Standard rate
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Charges of a punitive nature*	Outside scope
	<ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	
<b>2. CARD SERVICES</b>		
<b>2.1 Debit/Credit cards/ Prepaid cards</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Authorization fees<sup>^</sup></li> <li>• Cash withdrawal fee<sup>^</sup></li> <li>• Transaction fee<sup>^</sup></li> <li>• Statement fee<sup>^</sup></li> <li>• Replacement for Lost/ Stolen cards fees</li> <li>• Cash advance fee</li> <li>• Card Protection fee</li> <li>• Annual fees</li> <li>• Balance transfer fee</li> <li>• Late payment fee</li> <li>• Prepaid card fee</li> <li>• Dispute Claim Charges</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Upfront interest for balance transfer</li> <li>• Margin for FX markup</li> </ul>	
	Charges of a punitive nature*	Outside scope
	<ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	
	<b>2.2 Debit/Check account card</b>	Already covered in 2.1
<b>2.3 Membership fees</b>	Already covered in 2.1	
<b>3. MONEY/CASH TRANSFER</b>		
<b>3.1 General money transfer</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• International Transfer fee</li> <li>• International service fee</li> <li>• International Remittance Fees</li> <li>• Interchange fee</li> <li>• Remittance charge/commission</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Charges of a punitive nature*	Outside scope
	<ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	
<b>3.2 Cash (management) services</b>	All fees / commissions / commercial discounts	Standard rate



<b>3.2 Cash (management) services</b>	<ul style="list-style-type: none"> <li>• Subscription fee for cash management services</li> <li>• Processing fee</li> <li>• Corporate Payroll management fees</li> <li>• SARIE Transfer fee</li> <li>• Swift Transfer fee</li> <li>• Standing Order fee</li> <li>• Transfer amendment fee</li> <li>• Non receiving funds query fee<sup>^</sup></li> <li>• Payment stop or recall fee<sup>^</sup></li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Charges of a punitive nature*	Outside scope
	<ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	
<b>3.3 Electronic Banking</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Installation/rental electronic payment device</li> <li>• Electronic payment charge<sup>^</sup></li> <li>• Clearing charges fee</li> <li>• Fee for additional copies of statements</li> <li>• Standing payment order fees</li> <li>• E-banking token fees</li> <li>• PoS mada transaction fees - merchants</li> <li>• PoS credit card transaction fees - merchants</li> <li>• e-commerce credit card transaction fees<sup>^</sup></li> <li>• SADAD Account transaction fees</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Charges of a punitive nature* Outside scope	
	<ul style="list-style-type: none"> <li>• Penalty charges</li> </ul>	
<b>3.4 Safe Custody services</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Rental of safety deposit boxes located in KSA</li> <li>• Loss/replacement of key fee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Charges of a punitive nature*	Outside scope
	<ul style="list-style-type: none"> <li>• Penalties overdue rentals</li> </ul>	
	Cost recoveries**	Outside scope
<ul style="list-style-type: none"> <li>• Force opening charges (third party cost directly recovered from customer)</li> </ul>		

<b>4. TRADE SERVICES</b>		
<b>1. Bills (Negotiated or collected)</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Acceptance fee</li> <li>• Bill negotiation fee</li> <li>• Collection fee</li> <li>• Extension/roll over fee</li> <li>• Endorsement fee</li> <li>• Courier charge/fee</li> <li>• Postage fee</li> <li>• Redirect fee</li> <li>• Amendment fee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Income from discounting bills</li> </ul>	
<b>2. Letters of Credit / Standby Letters of Credit</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Amendment fee</li> <li>• SWIFT/Cable fee</li> <li>• Courier fee</li> <li>• Inward bill issuance fee</li> <li>• Postage fee</li> <li>• Issuance Fee</li> <li>• Acceptance fee</li> <li>• Confirmation charges</li> <li>• Advising fee</li> <li>• L/C Negotiation fee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Interest</li> </ul>	
<b>3. Guarantees (including shipping) &amp; Bankers' Acceptance</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Guarantee commission fee</li> <li>• Handling fee</li> <li>• Courier fee</li> <li>• Postage fee</li> <li>• Issuance Fee</li> <li>• Amendment fee</li> <li>• Advising guarantee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Bankers' Acceptance dealing profit</li> <li>• Trading in Bankers Acceptances</li> <li>• Discount on Face Value Bankers' Acceptance</li> <li>• Commission on Bankers' Acceptance</li> </ul>	
	Charges of a punitive nature*	Outside scope
	<ul style="list-style-type: none"> <li>• Penalties late return</li> </ul>	

<b>5. CREDIT &amp; LENDING</b>		
<b>1. General credit and advances</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Subscription fee - syndication</li> <li>• Commitment fee</li> <li>• Admin Fees</li> <li>• Securitization fee</li> <li>• Documentation fee</li> <li>• Processing fee</li> <li>• Arrangement fee</li> <li>• Participation Fee</li> <li>• Management Fee</li> <li>• Rescheduling Fee</li> <li>• Structuring Fee</li> <li>• Underwriting Fee</li> <li>• Agency Fee</li> <li>• Advisory Fee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Interest charges Implicit margin for securitization	
	Issue or transfer of debt securities	Exempt
	<ul style="list-style-type: none"> <li>• Issue of a loan</li> <li>• Securitization of debt security</li> <li>• Transfer of a loan portfolio</li> <li>• Sale of debts or receivables</li> </ul>	
	Cost Recoveries **	Outside scope
	<ul style="list-style-type: none"> <li>• Statutory notices charges</li> <li>• Letter of demand charges</li> <li>• Liquidator fee</li> <li>• Legal fee</li> <li>• Valuer fee</li> <li>• Auction fee</li> <li>• Reimbursement fee</li> </ul>	
<b>2. Mortgage loans (including other asset-backed financing)</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Administration fee</li> <li>• Evaluation fees</li> <li>• Refinancing and rescheduling fee</li> </ul>	
	Issue or transfer of debt securities	Exempt
	<ul style="list-style-type: none"> <li>• Issue of a loan</li> <li>• Sale of loan or loan portfolio</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Interest charges</li> </ul>	
	Early payment charges	Out of scope
<b>3. Factoring</b>	All fees / commissions / commercial discounts	Standard rate

<b>3. Factoring</b>	<ul style="list-style-type: none"> <li>• Annual Percentage Rate / Interest / other implicit consideration</li> </ul>	Exempt
	<ul style="list-style-type: none"> <li>• Transfer of book</li> </ul>	
	Full transfer of debt security	Exempt
	<ul style="list-style-type: none"> <li>• Non-recourse debt sale</li> </ul>	
	Assignment of debt	Outside scope
<ul style="list-style-type: none"> <li>• Assignment of debt with full recourse</li> </ul>		
<b>6. FINANCING</b>		
<b>1. Financial Lease (including hire-purchase)****</b>	All fees / commissions / commercial discounts	Standard rate
Note: In case the consideration is payable in periodical installments, a separate supply in respect of each installment takes place on the earlier of the due date for the payment of that installment or the date of actual payment.	<ul style="list-style-type: none"> <li>• Principal component of installments</li> <li>• Insurance fee</li> <li>• Admin fees</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Finance/lending component of installments</li> <li>• Interest adjustment</li> <li>• Interest on late payment</li> <li>• Interest subsidy from dealer/manufacturer</li> </ul>	
	Charges of a punitive nature*	Outside scope
	Penalty fee	
	Cost recoveries**	Outside scope
	<ul style="list-style-type: none"> <li>• Repossession costs</li> <li>• Irrecoverable tracing fee</li> <li>• Auctioneers commission</li> <li>• Storage fee</li> <li>• Towing fee</li> <li>• Cost of duplication of keys</li> <li>• Legal fee</li> </ul>	
<b>2. Operational Lease</b>	See under 6.1 (Financial Lease)	
<b>7. CAPITAL/MONEY MARKETS</b>		
<b>1. Securities transactions</b>		
Note: Securities transactions include: Commercial Bill Transactions, Derivatives-, options-, swaps-, credit default swaps- and futures trading, Short-term money market transactions, Bonds, Treasury Bills and all other Capital Markets transactions	All fees / commissions / commercial discounts	Standard rate

<b>1. Securities transactions</b>  Note: Securities transactions include: Commercial Bill Transactions, Derivatives-, options-, swaps-, credit default swaps- and futures trading, Short-term money market transactions, Bonds, Treasury Bills and all other Capital Markets transactions	<ul style="list-style-type: none"> <li>• Brokerage fee</li> <li>• Supply of underlying commodity</li> <li>• Arranger fee</li> <li>• Rollover fee</li> <li>• Collection fee</li> <li>• Underwriting fee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Issue of securities</li> <li>• Buying and Selling securities (Trading as principal)</li> <li>• Options premiums</li> <li>• Trading income earned on the underlying securities or commodity</li> <li>• Trading gains</li> <li>• Premium for structured products</li> <li>• Full underwriting activity</li> </ul>	
	Charges of a punitive nature*	Outside scope
<b>2. Clearing and Settlement</b>	All fees / commissions / commercial discounts	Standard rate
	<ul style="list-style-type: none"> <li>• Commission fee</li> <li>• Transaction fee</li> <li>• Settlement fee</li> <li>• Custody fee</li> <li>• Drafts Issue and Encashment fee</li> <li>• Brokerage fee</li> <li>• Clearing fee</li> <li>• Custodian fee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	Cost recoveries**	Outside scope
	• SAMA charges	
<b>3. Financial / Strategic Advisory / Investment management / Asset Management</b>	All fees / commissions / commercial discounts	Standard rate

<b>3. Financial / Strategic Advisory / Investment management / Asset Management</b>	<ul style="list-style-type: none"> <li>• Mobilization fee</li> <li>• Retainer fee</li> <li>• Success fee</li> <li>• Portfolio management fee</li> <li>• Portfolio management structuring fee</li> <li>• Fund setup fee</li> <li>• Safekeeping fee</li> <li>• Trust administration fee</li> <li>• Referral fee</li> <li>• Performance fee</li> <li>• Escrow fee</li> <li>• Documentation fee</li> <li>• Legal fee</li> <li>• Transfer fee</li> </ul>	
	Annual Percentage Rate / Interest / other implicit consideration	Exempt
	• Profit margins	
	Cost recoveries**	Outside scope
	• Legal fee (third party)	
<b>8. ISLAMIC FINANCE</b>		
<b>1. Murabaha/Tawaruq</b>	All administration and management fees	Standard rate
	<ul style="list-style-type: none"> <li>• Purchase and sale of supplies</li> <li>• Commodity charges/fee</li> <li>• Administration fee</li> </ul>	
	Financing element/ implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Fee based on profit margins</li> <li>• Lending fee based on implicit margin</li> </ul>	
<b>2. Ijarah</b>	All administration and management fees	Standard rate
	<ul style="list-style-type: none"> <li>• Purchase of assets by bank</li> <li>• Principal component of installments</li> <li>• Administration fee</li> <li>• Assessment fee</li> </ul>	
	Financing element/ implicit consideration	Exempt
	• Financing income (margin)	
<b>3. Musharaka</b>	All administration and management fees	Standard rate
	<ul style="list-style-type: none"> <li>• Purchase and sale of supplies</li> <li>• Administration fee</li> </ul>	
	Financing element/ implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Financing income</li> <li>• Profit margins</li> </ul>	
<b>4. Mudaraba</b>	All administration and management fees	Standard rate

<b>4. Mudaraba</b>	<ul style="list-style-type: none"> <li>• Administration fee</li> <li>• Arrangement fee – for corporate</li> </ul>	
	Financing element/implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Profit margins</li> <li>• Commissions based on profit margin or other implicit margin</li> </ul>	
<b>5. Wakala</b>	All administration and management fees	Standard rate
	<ul style="list-style-type: none"> <li>• Administration fee</li> <li>• Management fee</li> </ul>	
	Financing element/implicit consideration	Exempt
	<ul style="list-style-type: none"> <li>• Profit margins</li> <li>• Retention of excess profits</li> </ul>	

#### Notes:

\* Charges of a punitive nature must be interpreted in a narrow way and only applied to charges which are separate from the consideration for any product/service.

\*\* Cost recoveries are third party fees for a supply made to the customer which are paid on behalf of the customer by the financing company and recovered from the customer. On this basis the monies recovered are not consideration for a supply by the financial institution. Cost recoveries may only be treated as outside the scope of VAT when they are incurred on behalf of the customer in this way. Any items incurred by the financing company in its own name, and subsequently charged on to the customer are subject to VAT at the rate applying to the underlying cost.

\*\*\* The VAT treatment in this document assumes the supplier and the customer are both established in the KSA and the transaction is not carried on in respect of any other establishment outside the KSA. VAT treatments may differ for cross-border transactions involving participants established outside of the KSA.  
^ This applies only to international transactions

\*\*\*\* Banks and finance companies should look at the relevant fees and charges applied by them to their customers.

Note: The attached list of products and services and related fees and charges is for guidance of Banks, Finance Companies and other Financial Sector Services providers. It provides examples of treatment of these fees and charges under the VAT. The list indicates example of those that are exempt, outside the scope of the VAT rules and that are subject to VAT at the standard rate.

In any event, Banks and Financial sector providers will continue to follow the relevant laws and regulations that require them to seek a no objection from SAMA before launching a new product or service and applying any new fee or charge.

## APPENDIX II: LIST OF INSURANCE PRODUCTS

Insurance Companies Products List for VAT Purposes					
Schedule 1 - General and Health Insurance: Premiums and Reinsurance	Compulsory Insurance	Optional Insurance	Subject to VAT	Exempt	Outside Scope KSA VAT
1. Accident and Liability Insurance:					
a. Personal Accident		Optional			
b. Work Related		Optional			
c. Employer's Liability		Optional			
d. Third-Party Liability		Optional			
e. General Liability		Optional			
f. Product Liability		Optional			
g. Medical Liability		Optional			
h. Professional Liability		Optional			
i. Theft and Burglary		Optional			
j. Fidelity		Optional			
k. Safe Burglary		Optional			
l. Other Liability		Optional			
2a. Motor Insurance, compulsory	Compulsory				
2b. Motor Insurance, compulsory + others	Compulsory				
3. Property Insurance		Optional			
3a. Property insurance - property situated outside of KSA		Optional			
4a. Marine Insurance, hull		Optional			
4b. Marine Insurance, cargo		Optional			
5. Aviation Insurance		Optional			



6. Energy Insurance		Optional			
7. Engineering Insurance		Optional			
7a. Engineering Insurance - specific site located outside of KSA		Optional			
8. Other General Insurance		Optional			
9a. Health Insurance, compulsory	Compulsory				
9b. Health Insurance, compulsory + others	Compulsory				
<b>Schedule 2 - Protection and Savings Insurance: Premiums and Reinsurance</b>	<b>Compulsory Insurance</b>	<b>Optional Insurance</b>	<b>Subject to VAT</b>	<b>Exempt</b>	<b>Outside Scope KSA VAT</b>
1. Protection Insurance - Individual		Optional			
2. Protection and Savings Insurance - Individual		Optional			
3. Other Protection and Savings Insurance - Individual		Optional			
1. Protection Insurance - Group		Optional			
2. Protection and Savings Insurance - Group		Optional			
3. Other Protection and Savings Insurance - Group		Optional			
<b>Other Supplies / Events</b>			<b>Subject to VAT</b>	<b>Exempt</b>	<b>Outside Scope KSA VAT</b>
Commission or any charges for brokerage / intermediary fees (Schedule 1 or 2)					
Sale of assets repossessed as part of insurance policy					



Sale of assets on behalf of and in the name of a policyholder					
Sale of other business assets					
Advisory or management services					
Payment of a cash payout to an insured under a policy					
Provision of replacement goods to an insured under a policy					
Carrying out repair or other services as principal to an insured under a policy					
Receipt of payment under a reinsurance contract					



## APPENDIX III: FREQUENTLY ASKED QUESTIONS

### 1. Would the bank account statement be acceptable in replacement of individual invoice for VAT?

A bank account statement can be accepted as an invoice for VAT if the statement issued meets the requirements as set out in (article 53 of) the Implementing Regulations. This means the bank account statement for VAT registered customers and all legal persons should clearly detail information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged. For supplies within the KSA below an amount of SAR 1,000, a simplified invoice may be issued.

### 2. How are interchange fees treated for VAT purposes?

For VAT purposes, the interchange fee is the consideration the issuing bank receives when it is not the same party as the acquiring bank (i.e. the bank that effectuates the payment to the merchant where the card is used). The fact that interchange fees are settled on a net basis by SAMA, does not change the fact that the issuing bank makes a supply to the acquiring bank for the gross amount of the interchange fee. As the interchange fee is an explicit fee, this will constitute a supply subject to the standard 5% tax rate and the Issuing bank will be responsible for collecting VAT and issuing invoices.

### 3. How often should banks calculate the proportional deduction percentage?

By default, the proportional deduction percentage is calculated on a yearly basis, using value of supplies in the last calendar year. If not registered in the previous calendar year (which will apply to all taxpayers in 2018), estimated values must be used throughout the current calendar year. At the end of the year, so once every year, the taxpayer must compare the values used during the year with the actual values and make an adjustment to reflect the actual values in the last VAT return of the calendar year.

### 4. Is there a de minimis level set before proportional deduction is applied?

No de minimis level is implemented in the KSA.

It is noted that interest received for excess cash on funds held and available for access from a bank account will generally not be regarded as a (VAT exempt) supply for VAT purposes as this will not constitute a supply of goods or services against a consideration (out of scope).

### 5. How should secondment of staff or other outsourcing be treated?

Employees are not considered to perform an economic activity, and therefore no VAT is due on salaries. This does not apply to the provision of services by a service provider. In some cases, the secondment of staff on a full-time basis (where the recipient business directs and treats the outsourced labour in a similar manner to employees) may be treated as a disbursement. This will depend closely on the contractual and commercial arrangements. Outsourcing, and the contractual relationship between staff and the business, is a commercial decision and the business should be aware of the VAT consequences.

### 6. How to apply VAT on prompt payment discounts and full and final payment?

In case the prompt payment discounts and full and final payment offers are related to the earlier supplies, the supplier must issue credit notes inclusive of VAT. Input VAT should be corrected in the tax period in which the credit note is issued.

### 7. How to apply VAT on insurance contracts written for employees or other persons where no consideration is received?

In case no consideration is charged for these contracts, the supplies are considered nominal supplies (as per article 39 of the Implementing Regulations). The value of the nominal supply (on which VAT should be charged) is the amount of costs for the insurer or – in case this amount cannot be determined at the time of the nominal supply – the fair market value.

No nominal supply is recognized and therefore no VAT will be due if input tax was not deducted by the insurer in relation to these supplies and the turnover of the nominal supply is excluded from its proportional deduction calcul

