

KSA: Shura Council approves Excise Tax draft law. Registration open on the GAZT website.

May 2017

In brief

In an exceptional session on Sunday 16 of April 2017, the Kingdom of Saudi Arabia ("KSA") Shura Council approved the KSA Excise Tax draft law, which is now pending approval from the KSA Cabinet ahead of the expected introduction of Excise Tax on selective goods during the second quarter of 2017. The final time frame is yet to be confirmed.

In detail

Background

Further to the ratification of the GCC unified VAT and Excise Tax treaties, the Shura Council has recently approved the KSA Excise Tax draft law.

The Excise Tax law is expected to be effective within 15 days following publication of the final text in the Official Gazette, according to the draft published on the General Authority of Zakat and Tax ("GAZT") website.

The implementation of Excise Tax by KSA follows the agreement of the GCC States on a wider GCC Excise Tax treaty, which sets the common rules and principles of a region wide Excise Tax system.

The GCC Governments have been considering the need to diversify revenue streams away from hydrocarbon, and Excise Tax is typically seen as an effective tool in raising revenue while achieving broader government objectives.

The provisions in the Excise Tax law are expected to be further developed in the Excise Tax executive regulations.

Goods subject to Excise Tax and expected rates

The detailed list of goods subject to Excise Tax in KSA has not been included in the Excise Tax draft law.

However, based on the information published by the GAZT on its website the following goods are expected to be subject to Excise Tax in KSA at the following rates:

- Tobacco products - 100%
- Carbonated soft drinks - 50%
- Energy drinks - 100%

Tax Base

The Excise Tax draft law remains silent on this point. Based on the Excise Tax FAQ's published on the GAZT website, the Excise Tax due is expected to be calculated on the retail selling price.

Taxable Event

Excise Tax is expected to be levied upon the "release for consumption" of the excisable goods. The draft law does not further define what release for consumption shall mean. We understand that this generally means the following:

- For imported goods, excise tax is expected to be levied upon import of the excisable goods into KSA;
- For goods manufactured locally, excise tax is expected to be levied upon release of the goods from the tax warehouse where they are manufactured, unless they are moved to another tax warehouse under suspension of Excise Tax.

Registration and Excise Tax returns

Registration for Excise Tax purposes is expected for any person that undertakes any of the following activities in

KSA:

- Import of excisable goods
- Production of excisable goods
- Acquisition of excisable goods under duty suspension arrangement

No threshold is expected, so the above persons will in principle have to register for Excise Tax purposes irrespective of the size of their business. Certain exceptions might apply.

The GAZT has now published on its website an online version of a user manual to complete registration for Excise Tax purposes.

Registered taxable persons are expected to file bimonthly excise tax returns.

Penalties

The Excise Tax draft law introduces a strict penalty regime to be applied in cases of errors or tax evasion, and this is why it will be key to have the right systems and procedures in place to limit the taxable person's exposure.

The penalties included in the Excise Tax draft law are as follows:

- A penalty that ranges from 5% up to 25% of the undeclared tax due.
- A penalty equal to the 5% of the unpaid tax in case of late payment.
- A penalty up to SAR 50,000 in case of restricting GAZT officials from performing their duties, not providing the requested information or any other way of non-compliance with the law and executive regulations.

The penalties are expected to be further detailed in the Excise Tax executive regulations.

Impact on businesses and expected compliance requirements

The main expected compliance obligations for businesses are as follows:

- Registering with the Tax Authority
- Ensuring the appropriate resources and systems are in place to effectively manage Excise Tax to reduce the risk of non-compliance.
- Keeping Excise Tax records for five years, on paper or electronically; records must be accurate, complete and readable.
- Submitting periodic Excise Tax returns.
- Complying with the inventory and

movement control system, which may entail keeping and/or submitting additional documents related to the physical movement of excisable goods, particularly in the case of movements under Excise Tax suspension.

- Keeping customs and transport documents as relevant to the movement of excisable goods, especially with respect to transactions subject to refunds and/or exemptions, or performed under Excise Tax suspensio

The takeaway

If you are engaged in importing, exporting, producing, trading, storing or transporting excisable goods, the Excise Tax system will have a significant impact on your business.

There is a relatively short time to consider the of the introduction of Excise Tax and to make the necessary changes. The amount of work required will depend on the size and complexity of your business and it is essential that you consider the impact now and determine how best to deal with it.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

PwC Middle East KSA contacts

Mohammed Yaghmour - Partner
Tax Leader, KSA
+966 50 569 8572
mohammed.yaghmour@pwc.com

Chadi Abou-chakra - Director
Tax, KSA
+966 11 211 0400
Chadi.abou-chakra@pwc.com

Ahmed Abdelmaksoud - Manager
Customs & International Trade,
KSA
+966 56 677 1358
ahmed.abdelmaksoud@pwc.com

PwC Middle East Customs & International Trade contacts

Jeanine Daou - Partner
Middle East Indirect Tax Leader,
UAE
+971 (0) 4 304 3744
jeanine.daou@pwc.com

Carlos Garcia - Director
Middle East Customs &
International Trade, UAE
+971 (0) 4 304 3936
c.garcia@pwc.com

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