Guide on VAT implications associated with the Oil and Gas sector

April 2019

In brief

In April 2019, the General Authority of Zakat and Tax (‘GAZT’) issued a guide explaining the VAT implications associated with businesses of petroleum hydrocarbon products in the form of liquid or gas operating in the Kingdom of Saudi Arabia (‘KSA’).

At this time, the guide is issued in Arabic and can be accessed through the following link:


In detail

1. Definitions
Following definitions have been mentioned in the Guide which have not been provided for in KSA VAT Law and Implementing Regulations:

International Waters
Any area of the sea outside the territory of any country (over which KSA or any other country does not have sovereignty).

Territorial Waters
An extension of twelve nautical miles from the shore of the legally approved baseline of KSA maritime zone in the Red Sea, the Gulf of Aqaba and the Arabian Gulf (including airspace, subsoil and natural resources).

Distribution System through Pipeline
Any integrated network of pipelines or infrastructure that can transport oil and gas from one stage of the supply chain to another and facilities those networks where oil or gas is refined or distributed.

Trading terms
Commercial terms and conditions agreed upon in international contracts that are developed to clarify the party responsible for the different costs and risks associated with the carriage of the goods.

One of the commercial terms is (CIF), which means cost, insurance and freight; and these terms are considered to be indicative but not final or decisive for the legal relationship between the parties.

2. KSA territory
The Guide mentioned that the concept of "territory" for VAT purposes is different from the "customs zone" as defined in the Common Customs Law, and KSA territory may be extended for VAT purposes sometimes for a greater distance than the customs area.

The Guide clarified that in cases where oil and gas activities are carried out across land or sea borders between KSA and other State or between KSA and international waters, the person conducting such activities should determine in accordance with the guidance issued by GAZT to what extent the supplies can be made within the territory of KSA or outside KSA territory for VAT purposes.

3. Supply after exports
The Guide has explained that in cases where the supply of raw or refined products (purchased and sold) whilst on a ship waiting to leave a port in KSA or during an international transport by transit, in KSA (i.e. within its territorial waters), such transaction of goods may be considered as a subsequent supply.

Any subsequent supply of goods after export and clearance for export purposes shall also be export of goods subject to zero rate of VAT.

4. Customs Suspension Regime
Goods imported under Customs Suspension Regime will be subject to special rules as mentioned in the Common
VAT Agreement of the States of the Gulf Cooperation Council. Any supply of goods to or within the areas under Customs Suspension Regime shall be subject to zero rate of VAT.

Taxable persons are recommended to retain the supporting documents in respect of imports into Customs Suspension Regime.

5. VAT incurred before the commencement of commercial operations
The Guide clarified that VAT incurred by the taxable person for activities like preparation stages for oil extraction, developing infrastructure etc. before commencing commercial operations, will be deductible on the premise that the taxable person will commence commercial activities in the future.

The person has the option to register once the voluntary registration threshold for expenses will be met.

In the event the person will not be able to commence the commercial operations due to whatsoever reasons, any input VAT incurred will still be deductible till the date of such decisions.

6. Royalties and licensing fee
The guide has mentioned that a taxable person might be required to pay Royalties, Licensing fee or partnership payment to the Government.

There would be no VAT involved in such payments as the relevant Ministry of the Government shall not be seen as carrying on ‘economic activities’ in KSA.

7. Commodity contracts
In some cases, commodity contracts are concluded by the trader for financial purposes without any intention of the dealer to transfer ownership or possession of the underlying commodity.

If the terms of the contract do not permit delivery of the goods (for example, the contract requires that the cash amount be settled prior to the date of delivery), this is a contract for financial services and no payment is made for the conclusion of such “undeliverable” contracts against the supply of commodities.

The profits earned from these contracts are exempt from VAT.

8. Safety stock
The Guide explained that in some cases, the supplier may agree to place a stock of petroleum products at the customer’s premises and at his disposal, allowing the customer to use oil from stock when he needs it.

The goods are available to the customer for use at any time, but the ownership of goods is only transferred when goods are withdrawn from stock.

In such cases, the goods are supplied on the date on which the goods are placed at the customer’s disposal even if the ownership is transferred at a later date. The supplier must issue a tax invoice based on the date of supply.

The takeaway
Taxpayers engaged in the Oil and Gas sector are advised to read this guide and share the details with their international suppliers operating within the territorial jurisdiction of KSA in order for them to assess the VAT registration and compliance obligations in the light of place of supply rules.

Expert opinion should be sought to understand the place of supply rules and other complicated matters.
PwC KSA Contacts

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