

September 2020 Edition

Insights
Tax and Legal Services
PwC Middle East



The Kingdom of Saudi Arabia (KSA)

Value Added Tax

Legal updates

1. E-Invoicing - Draft Regulations

The General Authority of Zakat and Tax ('GAZT') has published a draft of the Electronic Invoicing ('E-Invoicing') Regulations on its website. Stakeholders are required to submit their opinion/feedback by 17th October 2020.

The aim of the initiative is to reduce the administrative burdens on taxpayers, increase the level of tax compliance, minimise hidden transactions and reduce anti-commercial concealment.

The draft Regulations are available in Arabic and can be accessed through the following link:

<https://gazt.gov.sa/ar/RulesRegulations/UnderConsultations/Documents/E-invoicing.pdf>

Recommendations, suggested amendments, comments and feedback can be shared with GAZT via email to public_consul@gazt.gov.sa

The PwC news alert issued on the matter can be accessed through the following link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2020/saudi-arabia-draft-electronic-invoicing-regulations-public-consultation-purposes.html>

2. New Royal Order impacting Real Estate Transactions

On 14/2/1442 H (corresponding to 2 October 2020), Royal Order Number A/84 was issued to exempt real estate disposal transactions from VAT, impose a new transaction tax on real estate disposal transactions and grant the Minister of Finance (MoF), in his capacity as the chairman of the General Authority for Zakat and Tax (GAZT), the power to set the terms of the application of the new tax as well as some specific requirements related to the Royal Order itself.

The Royal order entered into effect as of October 4, 2020 and can be accessed through the following link:

<https://www.uqn.gov.sa/articles/1601639489454648600/>

The PwC news alert issued on the matter can be accessed through the following link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2020/saudi-arabia-new-royal-order-impacting-real-estate-transactions.html>

3. Tax amnesty timeline extension and initiative related to appeals

The Minister of Finance (“MoF”) has issued a resolution No. 662 dated 09/02/1442AH corresponding to 26 September 2020 whereby some of the fiscal stimulus initiatives launched earlier, in accordance with the Royal Decree No. 45089 dated 23/07/1441AH corresponding to 18 March 2020 and Ministerial Resolution No.3430 dated 5/08/1441AH corresponding to 29 March 2020, has further been extended for an additional period of three months (i.e. until 31 December 2020).

Additionally, the resolution also provides the cancelation and waiver of all financial penalties imposed by GAZT on taxpayers who appealed against GAZT’s decision (assessments) under certain conditions.

This resolution applies to all taxes such as zakat, corporate income tax, withholding tax, value added tax and excise tax.

GAZT has also issued a guide (Arabic and English versions) elaborating the application of extended initiatives which can be accessed through the following links:

https://gazt.gov.sa/ar/HelpCenter/guidelines/Documents/Initiatives_Extention_AR1.pdf

https://gazt.gov.sa/ar/HelpCenter/guidelines/Documents/Initiatives_Extention_EN1.pdf

4. New amendments to the VAT Implementing Regulations

In accordance with the directions stipulated in the Royal Order Number A/84, the Board of Directors of GAZT has approved the amendments/additions of some articles of the KSA VAT Implementing Regulations and repealed some other articles.

This change has a potential impact on real estate supplies in KSA. VAT output will no longer be charged, however, this will mostly impact the eligibility for input tax deduction, apportionment and VAT refunds. Real estate developers, Financial Services institutions, Funds and other taxable persons engaged in real estate transactions will be affected by this change and should consider and assess the impact on their operations and VAT compliance.

In addition, since VAT on real estate supplies has been eliminated, the taxation of individuals who were previously perceived to be exercising an economic activities for dealing in real estate properties is no longer applicable. Therefore, the relevant articles have been repealed or amended as they are no longer relevant.

In addition to above, several articles of the VAT Implementing Regulations (Articles 30, 40, 43, 49 etc) have also been amended or added.

The official announcement can be accessed through the following link:

<https://www.uqn.gov.sa/lang/ar/pdf/viewer/1601651405964711300/1601651405000>

PwC news alert issued on the matter can be accessed through the following link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2020/saudi-arabia-new-amendments-vat-implementing-regulations.html>

Practical updates

1. Circular issued by GAZT on Transfer of Real Estate under Going Concern

GAZT has issued Circular Number 2007003 explaining the application of the concept of Transfer of Going Concern ('TOGC') on the transfer of real estate.

The circular clarifies the instances wherein transfer of real estate would be construed as TOGC and hence Out of Scope ('OOS') for VAT purposes and vice versa.

The circular can be accessed through the following links (English and Arabic versions):

English version:

<https://gazt.gov.sa/en/MediaCenter/Publications/Documents/TAX%20CIRCULAR%202007003%20English.pdf>

Arabic version:

<https://gazt.gov.sa/ar/MediaCenter/Publications/Documents/%D8%AA%D8%B7%D8%A8%D9%8A%D9%82%20%D8%B6%D8%B1%D9%8A%D8%A8%D8%A9%20%D8%A7%D9%84%D9%82%D9%8A%D9%85%D8%A9%20%D8%A7%D9%84%D9%85%D8%B6%D8%A7%D9%81%D8%A9%20%D8%B9%D9%84%D9%89%20%D8%A7%D9%84%D8%B9%D9%82%D8%A7%D8%B1%D8%A7%D8%AA%20%D8%A7%D9%84%D9%85%D9%86%D9%82%D9%88%D9%84%D8%A9.pdf>

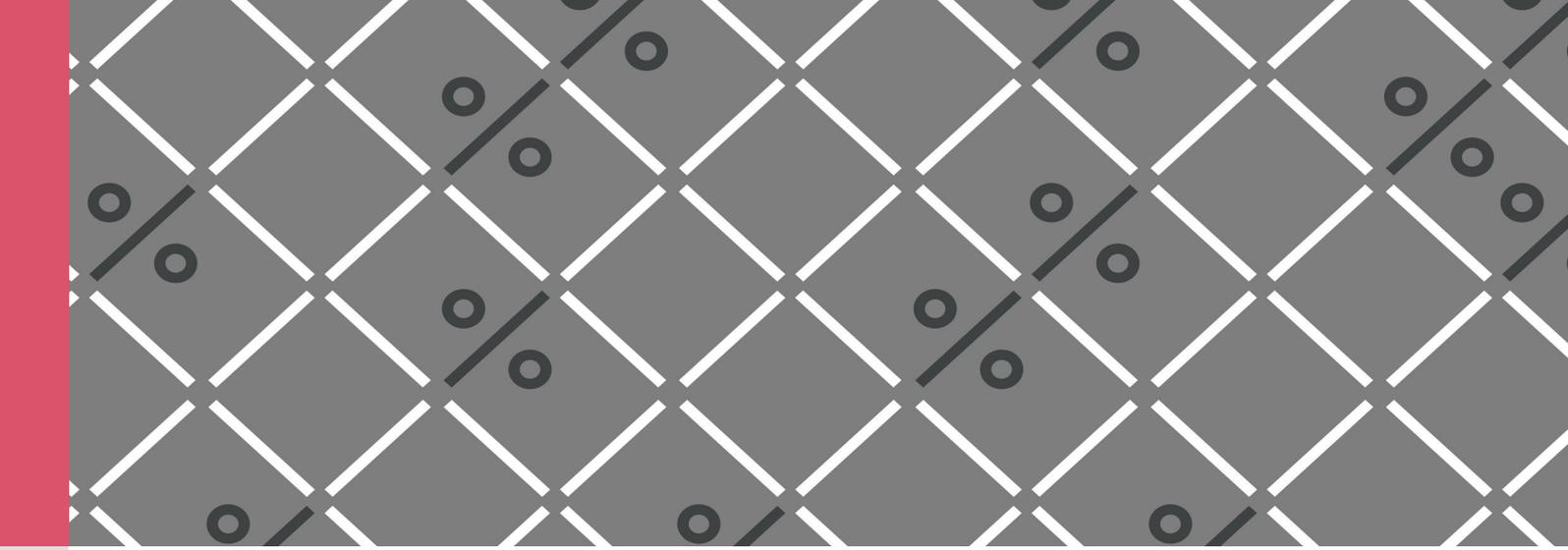
The PwC news alert issued on the matter can be accessed through the following link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2020/saudi-arabia-transfer-real-estate-under-going-concern.html>

Other key updates

1. Real Estate Transaction Tax - A new tax introduced as of 4 October 2020

In accordance with the directions stipulated in Royal Order Number A/84 regarding imposition of a new 'transaction tax' on real estate disposal transactions, the Minister of Finance, also the Chairman of Board of Directors for the General Authority of Zakat and Tax ("GAZT"), issued a Ministerial Resolution Number 712 dated 15/2/1441 H (corresponding to 3 October 2020) approving the Implementing Regulations related to the newly imposed transaction tax on real estate disposal transactions.



The regulations *inter alia* provides key definitions, details regarding imposition of transaction tax, due date and payment of tax, administrative provisions, exclusions from the application of transaction tax and provisions related to penalties etc.

This decision has entered into force as of Sunday 4 October 2020. The official announcement can be accessed through the following link:

<https://www.uqn.gov.sa/lang/ar/pdf/viewer/1601651405964711300/1601651405000>

The PwC news alert issued on the matter can be accessed through the following link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2020/saudi-arabia-real-estate-transaction-tax-new-tax-introduced-4-october-2020.html>

2. Real Estate Transaction Tax - Electronic services

GAZT has also updated its portal to include an E-services option related to the Real Estate Transaction Tax to perform the following activities:

- Property registration request
- Checking real estate registration status
- Application cancellation

The E-services options can be accessed through the following link:

<https://gazt.gov.sa/en/eServices/Pages/default.aspx>

3. Guide issued on new Real Estate Transaction Tax ('RETT')

GAZT has also issued a guide (available in Arabic at the moment) explaining the application of the new RETT on real estate disposal transactions.

The guide can be accessed through the following link:

https://mcusercontent.com/05b5426f3168a109c68c28c2d/files/08cbf137-de83-4e4b-885f-36ff52a7f5f2/RETT_Guide.pdf

The Kingdom of Saudi Arabia (KSA)

Customs and Excise

New customs controls for individual importers of tobacco products

Saudi Customs has published on 27 September, 2020 a circular highlighting new controls for individuals intending to import tobacco products in KSA in relation to the quantities allowed, payment of import taxes and implications of importing in excess of the set quantities.

In terms of the circular, individual importers may import tobacco products via express couriers, post services and air cargo. The exact quantity that may be imported depends on the category/type of the tobacco product. In that regard, individuals may every three months import quantities in accordance with the following thresholds:

- 2,400 for cigarettes;
- 125 cigars; and
- two kilograms of shisha products or its equivalent of other tobacco products.

The import taxes on the respective tobacco products is due and payable at the time of import, with the combined taxes made up as follows:

- customs duties at the rate of 100%;
- excise tax at the rate of 100%; and
- value-added tax at the rate of 15%.

Exemption Threshold

The applicable exemption limit on the payment of import taxes will remain at the previous permitted threshold of 200 cigarettes and 500 grams for all other types of tobacco products. If the amount of tobacco carried by an individual is in excess of the exemption thresholds and below or equal to the allowed quantities as per the new circular, Saudi Customs will charge and collect import taxes on entire quantity.

Implications of Excess Amounts

Any excess amount of tobacco products above the new allowed quantities will be seized, and the individual importer will be required to return the tobacco product to the source (of export). Upon being seized the excess tobacco product will be transferred to the customs warehouse. If an individual importer does not arrange for the return to the source, the excess amount of tobacco seized will be considered abandoned and sold for the export fee.

The Kingdom of Bahrain (Bahrain)

Value Added Tax

NBR releases an updated version of the VAT Real Estate Guide

The National Bureau for Revenue (NBR) in Bahrain has released the second updated version of the VAT Real Estate Guide that was first issued by the NBR in February 2019 and updated in August 2019.

This updated version of the Guide provides clarification that the zero-rate will apply on certain services needed to obtain a building permit and confirms that a building certificate is not required for the zero-rate to apply on such expenses. The Guide confirms that this will include:

- the provision of an original survey certificate and a layout plan certificate;
- engineering drawings of the plan, fronts and section;
- construction drawings of the foundations; and
- any further information or additional requirements requested by the Ministry of Works, Municipalities and Urban Planning.

This VAT treatment will apply even where the application for the building permit is rejected or building permit is issued, but the building is not built.

In all other cases, in the absence of a certificate, a supplier must charge VAT at the standard rate of 5% even where the supplies relate to the construction of a new building.

The Guide also confirms that supplies of any other drawings or information (not required by the Municipality) will be subject to VAT at 5%.

The link to the updated VAT Real Estate Guide can be found below:

https://www.nbr.gov.bh/vat_guideline

the PwC news alert issued on the matter can be accessed through the following link:

<https://www.pwc.com/m1/en/services/tax/me-tax-legal-news/2020/bahrain-nbr-releases-updated-vat-real-estate-guide.html>

The Sultanate of Oman (Oman)

Excise tax

Ahead of the implementation of excise tax on Sugar Sweetened Beverages (SSBs) in Oman from 1 October 2020, the Oman Tax Authority has released on their website FAQs, the list of SSBs subject to excise tax, an implementation guide of excise tax on sweetened drinks and a guide on filing of the transitional returns.

You may find the link to these documents below:

[https://tms.taxoman.gov.om/portal/web/taxportal/excise \(in Arabic\)](https://tms.taxoman.gov.om/portal/web/taxportal/excise (in Arabic))

To highlight, at this point, the Oman Tax Authority has only issued the list of sweetened drinks, but has not yet issued the Standard Prices for these products. Thus, this seems to be a draft version of the Standard Price List and is expected to be further refined in due course, to include the Standard Prices as well.

In light of this announcement, businesses involved in the production, import, trade or distribution of SSBs should start considering the necessary changes required to manage the impact on their operations, and comply with the legal requirements in terms of obtaining excise tax registration and compliance with transitional rules including filing of transitional excise tax return and payment of excise tax, if any.

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