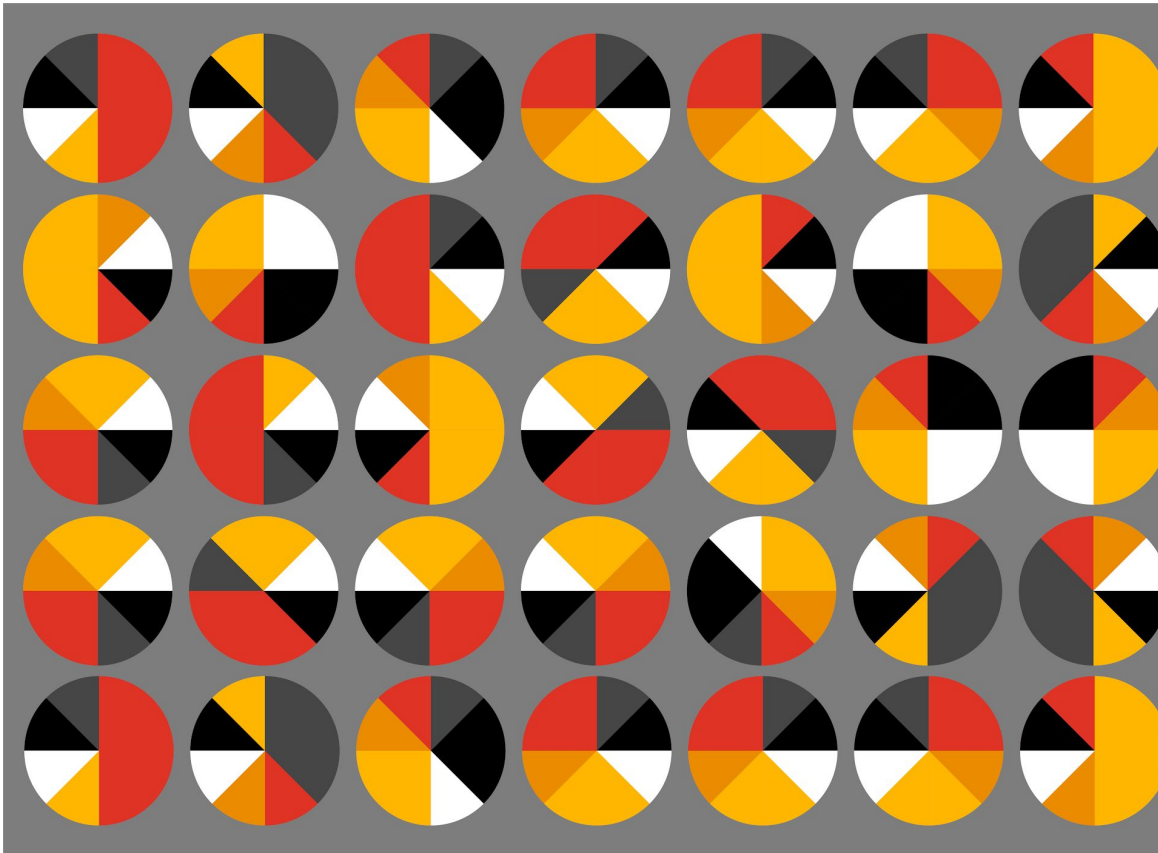


Saudi Arabia: End of the Transitional Period for VAT rate increase

June 2021



In brief

Further to VAT rate increase from 5% to 15% announcement effective the 1st of July 2020, the Zakat, Tax and Customs Authority ("ZATCA") in Saudi Arabia has announced transitional rules governing supplies that are made during the transitional period for the VAT rate increase i.e. from 11 May 2020 to 30 June 2021. The transitional rules would not be applicable starting from the 1st of July 2021 onward and the VAT rate to be applied going forward should be 15% applicable to all supplies made (except where it is zero-rated or exempt by law).

In detail

On 11 May 2020, the Minister of Finance in Saudi Arabia has announced several measures to counter the financial and economic impact of COVID-19 on the Government budget. Such measures included an increase in the VAT rate from 5% to 15% effective as of the 1st of July 2020.

Furthermore, the ZATCA has issued transitional guidelines to summarize how the transitional rules will apply to the KSA VAT rate change taking effect from the 1st of July 2020. The transitional measures began on the day of the announcement of the new VAT rate, which was 11 May 2020.

According to the above mentioned guidelines, the transitional period for the VAT rate increase is effective from the 1st July 2020 and expires on the 30th of June 2021. Many taxpayers and businesses have reviewed their contracts and invoices to understand the impact of the VAT rate increase and applied the old VAT rate of 5% on supplies made within the transitional period, subject to meeting specific requirements.

As the transitional provisions period expires on the 30th of the June 2021, taxpayers and businesses are now required to revisit the VAT treatment applied and make the necessary changes in their systems to charge VAT at the standard rate of 15% (instead of 5%) as of the 1st of July 2021.

It is to be noted that the VAT treatment and rate to be applicable to credit notes to be issued after the 1st of July 2021 has not been changed and should be linked to the original tax invoice and the VAT rate applied to the original supply.

Also taxpayers who did not apply the transitional rules properly will have an opportunity to make the required amendments of their filed VAT returns (related to the tax period from July 2020 till November 2020 and the third quarter of 2020) and consequently benefit from the 50% waiver of penalties that is still applicable till the end of June 2021.

Key Takeaways

Taxpayers and businesses are now required to revisit the VAT treatment applied for supplies made within the transitional period of the VAT rate increase, and make the necessary changes in their systems to charge VAT at the standard rate of 15% (instead of 5%) as of the 1st of July 2021.

Let's talk

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

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