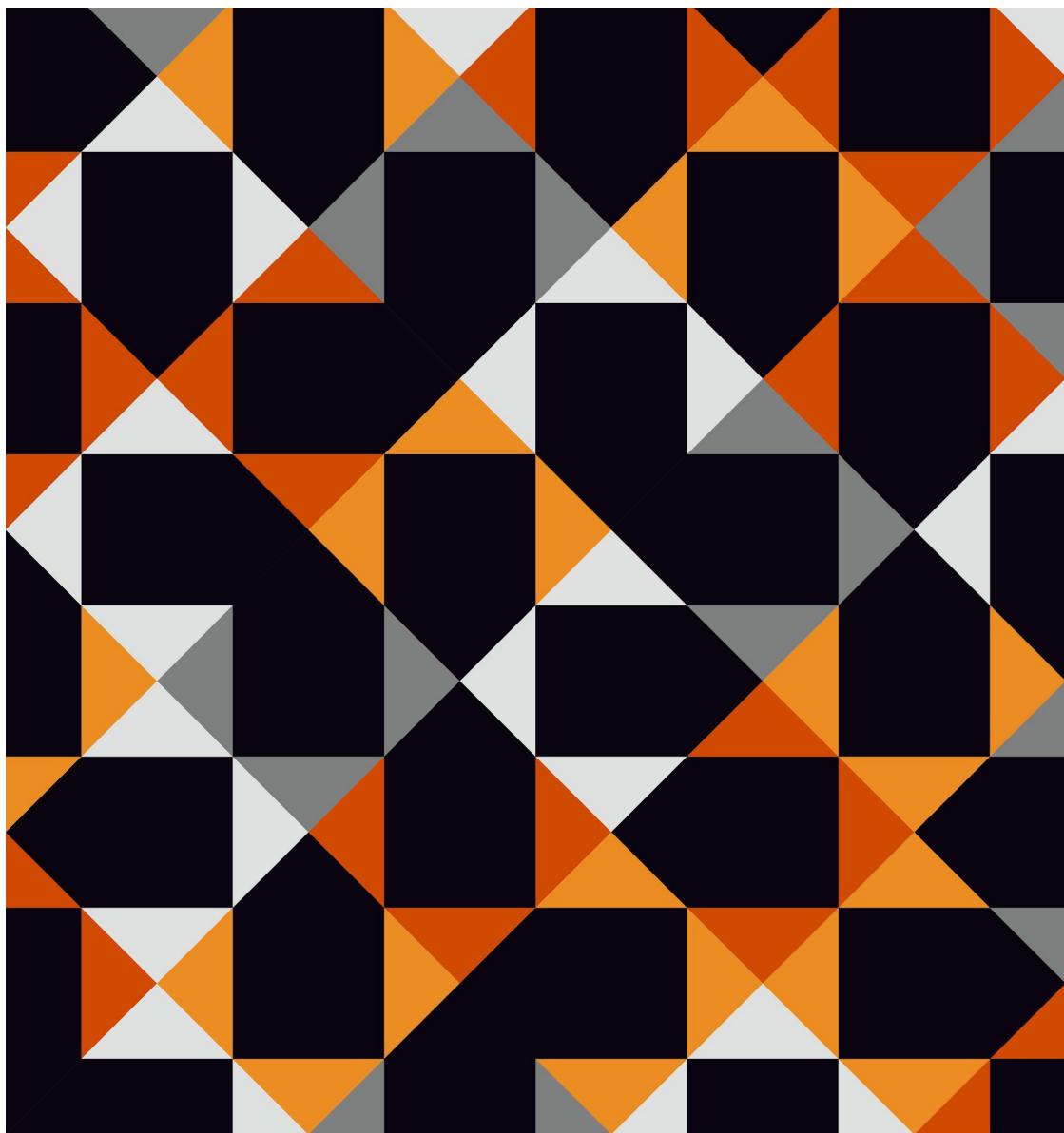


Saudi Arabia: VAT guideline for the construction sector

January 2022





In brief

The Zakat, Tax and Customs Authority ('ZATCA') published a new guide aiming to provide further clarifications to taxpayers on the application of VAT in relation to the services rendered linked to the construction sector in the Kingdom of Saudi Arabia ('KSA').

The guide is available in Arabic language at the moment and can be accessed [here](#).

In detail

The guide explains the VAT implications on various elements involved in the construction and contracting activities as follows:

- **Definition of construction services**

Construction service has been explained in detail in this guide as "an economic activity in which the establishment, renewal, repair or extension of fixed assets in the form of buildings is undertaken, including activities related to improve land and other constructions such as roads, bridges and dams".

The construction activities have been divided into three sections: Building construction, civil engineering and specialised construction activities.

- **VAT treatment of services provided by contractors/subcontractors**

The guide clarifies that services provided by the main contractor such as building construction or engineering works will be subject to VAT at the standard rate. Similarly services provided by the subcontractor to the main contractor will also be subject to VAT at the standard rate.

- **Place of supply of construction services**

Supplies of construction services shall be treated as supply of services related to real estate. Accordingly, the place of supply of such services is where the real estate is located.

- **Important considerations**

- **Retained payments against performance guarantee**

- VAT will be due at the standard rate on the invoice amount or any other document through which the full/partial contract value is demanded regardless of payment made by the recipient.

- **Guarantee**

- VAT will be due at the standard rate on the guarantee amount where such amount is paid as a consideration and available for adjustment against future taxable supplies.
 - In other cases, the guarantee amount does not represent a consideration for taxable supplies and will be considered out of scope for VAT purposes. VAT becomes due on such amount only from the time such amount becomes available for use by the supplier.

- **Indemnity**

- Where the supplier is contractually required to compensate for any damages to the recipient as per agreed mechanism, this will be treated as adjustment to the value of supply and a tax credit note will be required to adjust the value of tax invoice issued earlier.
 - In case the supplier is required to pay an amount for actual damages caused to the customer's property, or if the customer obtained a claim for damages by a court or other independent body, such damages will not be treated as an adjustment to the contract value.

Real Estate related services are those which are related to a specific area of Real Estate and follows special place of supply rules.

Instances of adjustment to value of supply are required to be analyzed critically to ensure compliance with the VAT legislation.



Date of supply in the construction sector

- **Date of supply**

The normal date of supply rules apply to construction services in the same way as they apply to any other service i.e. the date of supply will generally be earlier date of the following:

- the date of supply of goods or services,
- the date the tax invoice was issued, or
- the date on which the consideration was received partially or in full.

The guide provides a list of special cases that does not follow the general for date of supply, such as:

Special cases	Tax point
Issuance of the completion report	The date of supply is the date of issuance of the completion report [in addition to the normal time of supply concept].
Contracting with government entities registered for VAT purposes	<p>The date of supply is (i) the date of issuance of the payment order against taxable supplies provided or (ii) the date of receiving the consideration whichever comes earlier.</p> <p>The aforementioned principle will be applicable in case of claims that were submitted post effective date of the amendment to the Article 20 of the Implementing Regulations.</p>
Withholding payments against performance guarantee	The date of supply is (i) the date of issuance of a tax invoice demanding full contract price (if not claimed already) or (ii) the general time of supply principle (irrespective of receipt of payment).

The takeaway

Taxable persons engaged in providing real estate related services are encouraged to read the guide to ensure that the treatment being followed is in accordance with the applicable VAT legislation.

Contractors / subcontractors should also confirm their input VAT recoverability requirements and the eligibility to refund VAT incurred in the course of conducting their economic activities.

Expert opinion should be sought in case of any unclear position.

Let's talk

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

	Mohammed Yaghmour Middle East Tax & Legal Services leader +966 56 704 9675 mohammed.yaghmour@pwc.com		Mohammed Al-Obaidi Zakat and Tax Leader +966 50 525 6796 mohammed.alobaidi@pwc.com
	Dr. Yaseen AbuAlkheer Partner, Zakat and Tax +966 54 425 0540 yaseen.abulkheer@pwc.com		Mohammad Amawi Partner, Zakat and Tax +966 55 800 9697 mohammad.h.amawi@pwc.com
	Chadi Abou Chakra Indirect Tax Leader +966 56 068 0291 Chadi.Abou-Chakra@pwc.com		Maher ElAawar Partner - Indirect tax and fiscal policy +971 56 2161109 maher.elawar@pwc.com
	Fehmi Mounla Partner, Zakat and Tax +966 56 271 3073 fehmi.mounla@pwc.com		Mohammad Harby Partner, Zakat and Tax +966 56 907 2618 mohamed.harby@pwc.com
	Fayed Al Debs Partner, Zakat and Tax +966 54 400 1037 fayed.aldebs@pwc.com		Ebrahim Karolia Partner, Tax +966 56 890 3663 karolia.ebrahim@pwc.com
	Suleiman Mulla Partner, International Tax +966 54 122 8051 suleiman.mulla@pwc.com		Wael Osman Partner, Zakat and Tax +966 56 699 4653 wael.osman@pwc.com
	Mugahid Hussein Partner, Zakat and Tax +966 54 425 6573 email		Husain Miyasaheb Partner, Transfer Pricing +966 56 143 0843 husain.m.miyasaheb@pwc.com

Thank you

©2021 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.