

# 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.

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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.

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## 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:



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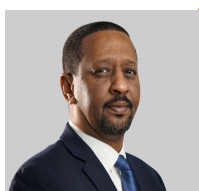


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# Thank you