

Saudi Arabia: VAT guide on Electronic Contracts

September 2022



In brief

The Zakat, Tax and Customs Authority ('ZATCA') published a VAT guide in September 2022, on its official website, explaining the concept of 'Electronic Contracts' along with VAT consequences under various scenarios.

The guide also provides definitions of terms such as contracts, Agents, Principal, etc which are neither defined nor available in the VAT Law and its Implementing Regulations.

The guide is available in both [English](#) and [Arabic](#) and should be accessed to obtain additional details.

In detail

What constitutes an electronic contract?

An electronic contract may be negotiated and executed electronically over the internet. The parties to the contract often interact with one and another exclusively in a digital format, without the requirement to meet in-person.

Validity and status of an electronic contract

The key requirements for the formation of a contract are 'offer and acceptance'. For a contract to be valid, there must be an offer by one party and an acceptance of that offer by the other party.

Examples of electronic contracts and VAT implications

The guide provides certain examples of electronic contracts along with VAT consequences which have been tabulated hereunder:

Example of electronic contract	Key indicators	Output VAT obligations	Input VAT deductibility
Goods sold Via manufacturer's website	Acceptance of general terms and conditions by customer on the website or application	Manufacturer will be responsible to apply VAT as per applicable rules and regulations	The taxable Customer will be entitled to deduct input VAT subject to fulfillment of prescribed conditions

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The governance and VAT implications in case of electronic contract are homogenous to that of a normal contract.

Due consideration should be given to 'disclosed vs undisclosed' agency concept to discharge VAT obligations in the prescribed manner.

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Example of electronic contract	Key indicators	Output VAT obligations	Input VAT deductibility
Goods sold via an Agent's online interface or portal	Disclosed* vs undisclosed agency contract	Supplier or Principal will be responsible to apply VAT on sale as per applicable rules and regulations	Taxable customer or recipient will be entitled to deduct input VAT subject to fulfillment of prescribed conditions
Provision of consultancy services - KSA based parties	Acceptance of an electronic contract	Service provider will be responsible to apply VAT on its services as per applicable rules and regulations	Taxable customer will be entitled to deduct input VAT subject to fulfillment of prescribed conditions
Purchase of online content through a mobile app-store	Disclosed* vs undisclosed agency contract	Supplier or Principal will be responsible to apply VAT on sale as per applicable rules and regulations	Taxable customer or recipient will be entitled to deduct input VAT subject to fulfillment of prescribed conditions

*Disclosed agent will be entitled to agency commission only as per agreement pursuant to issuance of a valid tax invoice

VAT registration obligation and input VAT deduction

The guide also provides general information on VAT registration obligation and input VAT deduction criteria as per KSA VAT law and its implementation regulations.

The takeaway

We recommend that taxable persons, who are making supplies of goods and services pursuant to an electronic agreement or through an intermediate online interface/ portal, should assess whether their current VAT practices are aligned with the guidance provided by ZATCA, and whether these new guidance have any impact on their legacy VAT position. In addition, taxable persons are invited to correct their position, if required, by discharging their VAT obligations before the end of amnesty period i.e. 30 November 2022 to mitigate their exposure to penalties.

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Let's talk

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

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Thank you