Value Added Tax (VAT) Impact on the Retail Industry
This article discusses VAT issues that may arise for the retail industry in the Kingdom of Saudi Arabia.

In other countries, retailers generally need to meet a turnover (sales) threshold to fall under the VAT regime. A VAT registered retailer is generally required to issue formal VAT invoices for supplies of goods and services (sales) made to VAT registered customers while a formal VAT invoice may not be issued to an unregistered customer. The customers of the retail businesses may or may not be registered for VAT. It might therefore be practically more convenient for a VAT registered retailer to issue VAT invoices to all customers regardless of their VAT status.

Some of the key VAT issues which may impact retailers include:

- price displays;
- invoicing;
- discounts;
- consignment sales;
- gift vouchers;
- deposits; and
- hire-purchase and installment arrangements.

These are discussed below:

**Price displays**

In a number of countries, VAT laws require that the price tags on retail goods displayed for sale include the VAT inclusive price. This is to ensure that the customers know the final price payable for the goods.

The proposed VAT law in the Kingdom of Saudi Arabia may require that retailers display the price before VAT and the final price inclusive of VAT.

**Invoicing**

A requirement to issue a ‘VAT invoice’ to customers is likely to be stipulated in the proposed VAT Law in the Kingdom of Saudi Arabia.

In other VAT regimes, the following are generally required to be displayed on a VAT invoice;
• Name of the retailer
• Business address
• VAT registration number
• Serial number of the invoice
• Invoice date; and
• Total amount payable including the VAT amount charged.

Special provisions may be introduced for retailers selling products in department stores, supermarkets or similar types of businesses to be able to issue ‘Simplified Tax Invoices’ for purchases below a given threshold.

**Discounts**

Businesses may promote sales, clear unsold inventory and offer discounts to their customers. It is also common for stores to issue VIP store cards or credit cards to their privileged customers which offer discounts on sale of products.

Different VAT implications may apply depending on whether the discount is offered to the customer by the store or by the credit card company.

**Consignment sales**

Consignment sales can take the form of a ‘sale or return’.

If a seller sells goods on a consignment basis, then the ‘sale’ normally does not take place until the consignee has further sold the goods. This means that the consignee has agreed to sell the goods without first buying those from the consignor. The consignee is generally at liberty to return any unsold goods at any time.

In this case, the consignee may only be required to charge and account for VAT on the full selling price of the goods at the time he sells the goods and not when he received the goods from the consignor.

**Concessionaire sales**

Some retailers may allow concessionaire counters within their stores where the space is provided rent free and the concessionaire sell goods belonging to other retailers.
Customers who buy from the concessionaire can usually pay for their purchases at any cash register within the retail store. Generally the VAT treatment for concessionaire sales would depend on the contractual arrangement between the retailer and the concessionaire. Moreover, VAT on the provision of space to the concessionaire counter could arise based on what would be the market value rent for the space, regardless of the arrangement between the retailer and the concessionaire.

**Gift vouchers**

It is common for retailers to sell gift vouchers which customers purchase and give away as gifts. The holder of such vouchers is entitled to redeem these for any goods in the retail store up to the value stated on the vouchers.

The proposed VAT law in the Kingdom of Saudi Arabia may prescribe the timing of supply in relation to sale of gift vouchers, that the taxable supply occurs when the gift voucher is sold or at the time of redemption of the voucher.

**Deposits**

Retail stores may take a deposit on goods for customers. The VAT treatment on deposits often depends on whether the deposit is refundable or not.

**Goods sold under hire-purchase/installment sales**

Hire purchase transactions/instalment sales generally include cost of the goods sold as well as a credit charge being the ‘profit’ or finance income. Normally, both components are included in the final sale price and are then divided into regular instalment payments for the duration agreed.

In other regimes, a sale of goods under a hire-purchase agreement may result in two separate supplies for VAT purposes, being a supply of goods and a supply of credit.

VAT may not be chargeable on the hire-purchase ‘profit’ (finance income) element if it is separately disclosed to the customer. However, where the full value of an instalment sale is treated as a taxable supply, then additional VAT charge would arise on the transaction. The proposed VAT law may prescribe rules in this regard.
**Conclusion**

Entities engaged in retail business need to undertake a VAT readiness exercise at this stage to identify potential VAT touch points in their business operations. These could be more numerous than just the purchase and sale of goods. They also need to perform a mapping exercise between their business operations and finance functions and assess the readiness of their accounting and IT systems for the likely introduction of VAT. A detailed implementation plan would be needed to ensure a smooth transition to VAT with minimal disruption to the business.

**About the author**

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