



Tax Alert: VAT at the rate of 15% to apply to the export of marketing services

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Summary

The Saudi Arabian General Authority for Zakat And Tax (GAZT) has expressed the view that standard VAT rate should apply to the services related to tangible goods located in KSA, including “administrative, consultancy and promotional services, market research, public relations and communication services”.

In Detail

On 13 October 2020, the Saudi Arabian General Authority for Zakat And Tax (GAZT) issued a tax circular outlining its interpretation of the application of a zero VAT rate to the supply of services to non-residents regulated under article 33 of the KSA VAT Implementing Regulations.

The Circular is not legally binding but provides an understanding of how GAZT intends to interpret the respective legislation.

For the most part, the circular follows the approach already expressed by GAZT in its guide on “Supplies of services to non-GCC residents” issued previously. However, there is a new statement that we believe may have an impact on many international businesses.

When commenting on which services should be subject to the standard VAT rate (15% from 1 July 2020) on the basis of having tangible goods as their main subject, GAZT provides the following example: “administrative, consultancy and promotional services, market research, public relations and communication services.”

Many international businesses trade with KSA customers using the support of KSA subsidiaries or distributors that charge fees for their support. When applying this interpretation, such services may become subject to VAT at a rate of 15%.

We understand there are several instances where GAZT has already adopted this approach which is being disputed. Now, with the VAT rate increase to 15% and the VAT refund non-residents still not being available, applying VAT at the standard rate instead of the zero rate may lead to a significant increase in operational costs for business.

Whilst GAZT has stated the intention to apply this interpretation forgoing forward, taxpayers should also consider historical risks.

Our teams are available to discuss these developments and assess their impact on your business.

Get in touch

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