



Tax News Update #1

September 2020



This is an overview of some of the major tax updates in the KSA over the months of June, July, and August 2020. Our teams are available in case you need any clarification or further assistance.

Saudi Arabia Transfer Pricing Guidelines: Second Edition

In February 2019, the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia formally released the final Transfer Pricing Bylaws. The GAZT subsequently issued the First Edition of the Transfer Pricing Guidelines in March 2019. The TP Guidelines serve to provide guidance on how the TP Bylaws are to be applied in the KSA.

On 1 June 2020, the GAZT issued the Second Edition of the TP Guidelines. The Second Edition does not usher in any significant changes or additions to the application of the TP Bylaws.

Increase in Customs Duties in Saudi Arabia – with effect from 20 June 2020

The Council of Ministers has announced an increase in customs duties effective from 20 June 2020. The rate increases range from 0.5 to 15%. A full list of new duty rates can be found on the Saudi Customs [website](#). The increase in duty rates affects a wide variety of products such as: dairy, food products, chemicals, plastic, rubber, leather, paper, clothes, shoes, fabrics, marble, ceramics, porcelain, glass, various metals, furniture and machinery.

Guidelines for VAT Registration of Private Property

On 20 June 2020, the GAZT released guidelines for individuals with private property to register for VAT on its online [platform](#). The guidelines are based on the VAT Law amendments implemented on 19 June 2020.

VAT on real estate has been in effect since 1 January 2018, when the tax was implemented for all goods and services at the rate of 5%, which has increased to 15% since 1 July 2020. The rate of VAT applies to the sale of a piece of land, an apartment, a villa, a commercial store, and a warehouse or storage space. VAT also applies to the rent of private property apart from villas, apartments, and residential buildings.

The recent amendments to VAT law establish that persons who perform or expect to perform real estate supply are engaged in an economic activity that requires to be registered for VAT. They set out GAZT's mechanism for registration where the authority established special rules regarding the registration, management, evaluation and collection of VAT due to persons registered under this mechanism. The authority handles registration procedures, deregistration, notices, registration validity, registration status, tax period, filing of VAT returns, dealing with other relevant parties, and any other procedures considered appropriate.

GAZT issued the guidelines to ensure that VAT regulations will be implemented with the supply of real estate at the individual level. Individuals who are selling their real estate must go through a Ministry of Justice process that confirms their tax obligations. GAZT has simplified the process and has partnered with the Ministry of Justice to provide a tax invoice through the authority's online platform.

Tax Ruling Requests Guidelines Update

The GAZT released an updated version of its Tax Ruling Requests Guideline on July 1, 2020. The document provides guidance to Taxpayers and their agents who wish to request a Ruling from GAZT.

Rulings are interpretative decisions issued by GAZT to Taxpayers which provide a written opinion or clarification on its interpretation of the Kingdom's tax legislation. They are applicable to Value Added Tax or Income Tax, including withholding taxes. Ruling Requests must be related to actual activities or transactions and not based on hypothetical matters. In most cases, GAZT will issue a Ruling in response to a Request, but it is not obligated to respond to all submitted Ruling Requests.

Rulings constitute a legal opinion or advice and are non-binding on GAZT, the Applicant, or any other person. No part of a Ruling constitutes an amendment to the Kingdom's tax laws and regulations, or to international agreements the government has entered into. Where a Ruling conflicts with any of the latter, the laws and agreements will prevail.

New VAT Return Format

On 21 July 2020 the GAZT released a new VAT return format on its website to reflect recent changes that came into effect on 1 July 2020, raising VAT from 5 to 15%. The new format includes multiple changes to the general ledger of the return form, mainly in the applicable rate of VAT.

The categories of "Standard Rated Sales subject to 15% VAT" and "Standard Rated Domestic Purchases subject to 15% VAT" have been added to the form, while "Standard Rated Sales at 5%" and "Standard Rated Domestic Purchases at 5%" remain as subcategories to cover contracts subject to transitional provisions, which will be applicable until the earlier of: expiry of contract, renewal of contract, or until 30 June 2021.

The form allows the applicant the option to choose whether they have sales or purchases subject to the previous standard rated 5%, and by clicking "Yes" the form allows them to declare these sales or purchases.

Two other categories were updated: "Imports subject to VAT paid at customs" and "Imports subject to VAT accounted for through Reverse Charge Mechanism", which are now both rated at 15% VAT.

Contract Disclosure Service Online Platform

The GAZT has introduced a new online service on its electronic platform: "Contract Disclosure Service". GAZT aims to maintain accuracy and quality of documents through this new format and requires that contracts be uploaded to the platform through a GAZT online account. Hard copies of contracts will no longer be accepted as the service has moved solely to the online platform.

GAZT specified that any person subject to Zakat, Income Tax, VAT, or any other form of tax in the Kingdom must declare their contracts on the platform. All contracts exceeding SAR 100,000 must be declared within three months of the date of signing, and GAZT also needs to be informed when contracts are no longer in effect. All past contracts that are still in effect must also be declared and will not be fined when doing so.

COVID-19 Mitigation Measures

Extension of Saudi Customs Self-Correction Program for Three Months

The Saudi Arabia General Customs Authority ("Saudi Customs") introduced a self-correction [program](#), to run from 1 January 2020 until 30 June 2020, which would enable importers to declare and pay customs duties on any historic non-compliance with the KSA customs legislation. Due to the ongoing COVID-19 pandemic the program has been extended for three months until 30 September 2020.

Applying for self-correction within the specified conditions and timing allows the taxpayer to pay only the outstanding customs duties and taxes and they will not be subject to any additional penalties.

Extension of Waiver of Penalties for Tax Filing and Payment for Three Months

The GAZT has extended its waiver of penalties for all tax filing and payment for a further three months as part of its efforts to mitigate the impact of the COVID-19 pandemic on the economic activities of the Kingdom. GAZT has announced that the waiver will be extended until 30 September 2020. This is an extension of the IFSAH initiative's waiver of penalties for Zakat, Income Tax, Withholding Tax, VAT, and Excise Tax, which ran from 18 March 2020 until 30 June 2020.

The extension includes a waiver of penalties for taxpayers who need to submit or amend their tax declarations on condition that they pay their pending tax dues and submit or amend their documents by 30 September 2020. Penalties will also be waived in case of late registration to the GAZT system if the taxpayer registers, submits, and pays all dues by the new deadline.

GAZT also announced that taxpayers can request approval of installment plans where they are unable to settle any outstanding tax 30 September 2020. Penalties will be waived for past taxes until 30 September 2020 but will resume on 1 October 2020.

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