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VAT

Kingdom of Saudi Arabia VAT GUIDELINE FOR REAL ESTATE

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1. Introduction

1.1. Implementing a Value Added Tax (VAT) System in the Kingdom of Saudi Arabia (KSA)

The Unified VAT Agreement for the Cooperation Council for the Unified Arab States of the Gulf (the "Agreement") was approved by KSA by a Royal Decree No. M/51, dated 3/5/1438 H. The Saudi Arabian National VAT Law issued by a Royal Decree No. M113 dated 2/11/1438 H and its corresponding Implementing Regulations were subsequently issued by the Board of Directors of the General Authority of Zakat and Tax ("GAZT") by Resolution No.3839 dated on 14/12/1438 H.

References in this guideline are related to "the Unified VAT Agreement", the "VAT Law" and the "Implementing Regulations".

1.1.1 General Authority of Zakat & Tax

GAZT, also referred to as "the Authority" therein, is the authority in charge of the implementation and administration of VAT in KSA; in addition to the registration and deregistration of taxable persons for VAT; the administration of VAT return filing and VAT refunds; and undertaking audits and VAT visits. GAZT also has the power to levy penalties for non-compliance with VAT regulations.

1.1.2 What is Value Added Tax?

Value Added Tax ("VAT") is an indirect tax which is imposed on most goods and services that are bought and sold by businesses, with a few limited exceptions, which is implemented in more than 160 countries around the world.

VAT is a tax on consumption that is paid and collected at every stage of the supply chain, starting from when a manufacturer purchases raw materials until a retailer sells the end-product to a consumer. Unlike other taxes, certain eligible businesses will both:

- collect VAT from their customers equal to a specified percentage of each eligible sale; and
- pay VAT to their suppliers equal to a specified percentage of each eligible purchase.

When a VAT-registered business sells a good or service, a 5% VAT charge – assuming a standard case – is assessed and added to the sales price. The business will account for that 5% from all eligible sales separately from its revenue in order to later remit a portion of it to the Authority. The VAT a business collects on its sales is called Output VAT.

That same business will also pay 5% VAT on top of the goods or services it purchases from other taxable businesses. The VAT a business pays to its suppliers is called Input VAT.

Further information about VAT can be found in the KSA VAT Manual or at vat.gov.sa

1.2 This Guideline

The purpose of this guideline is to provide additional clarification with respect to the VAT transactions in both commercial and residential real estate sectors.

This guideline is directed for businesses and individuals involved in the Real Estate sector, including any persons who buy, sell, or lease residential or commercial property.

This guideline is issued by GAZT for information only. It represents GAZT's views on the application and fair treatment of the Unified VAT Agreement, the VAT Law and the Implementing Regulations concerning the Real Estate sector as of the date of this guideline, but does not include, or purport to include, all the relevant provisions in relation to the real estate sector from those laws. It is not binding on GAZT or on any taxpayer in respect of any transaction carried out and it cannot be relied upon in any way.

For further advice on specific transactions we encourage you to apply for a ruling; or send an email to vat@gazt.gov.sa; or visit the official VAT website at (vat.gov.sa), which contains a wide range of reference tools and information to support the taxpayers and enterprises, as well as visual guidance materials, relevant information, and FAQs.

2. Definitions of Key Terms

Real Estate refers to land and buildings. It is defined by the Implementing Regulations¹ for VAT purposes to include:

- a) *any specific area of land over which rights of ownership or possession or other rights in rem can be created*
- b) *any building, structure or engineering work permanently attached to the land*
- c) *or any fixture or equipment which makes up a permanent part of or is permanently attached to the building, structure or engineering work.*

Residential Real Estate refers to property intended for use as a residence. It is defined for VAT purposes as:

*"A permanent dwelling designed for human occupation, including immovable property used or intended to be used as a home, such as houses, flats and apartments; and other Real Estate intended as a person's primary residence, including residential accommodation for students."*²

Residential Real Estate includes the boundaries legally assigned to the property, including gardens, garages or any other feature that is considered a permanent part of the property.³

Commercial Real Estate refers to real estate used for business purposes or any other non-residential purposes. It is not a defined term for VAT purposes.

Economic Activity defines the activities which fall within the scope of VAT. This includes business activities but also any other ongoing activities which may be carried on by natural persons. The term is defined by the Unified VAT Agreement⁴ for VAT purposes as:

an activity that is conducted in an ongoing and regular manner including commercial, industrial, agricultural or professional activities or Services or any use of material or immaterial property and any other similar activity.

Activities falling within the scope of Economic Activity within the real estate sector are discussed set forth in this guideline.

Taxable Person or VAT registered person is any person – including any business or any individual - who carries on an Economic Activity independently for the purpose of generating income, who is registered or obliged to register for VAT with GAZT.⁵

Resident is a term defining a person (business or individual) who has a place of residence in the KSA for VAT purposes, and a **non-Resident** is a person with no such place of residence in the KSA⁶. The rules to determine residence are discussed in more detail in Section 7 (Place of Supply).

¹ Article 23(1), [Real Estate related services], Implementing Regulations.

² Article 30(2), [Lease or license of Residential Real Estate], Implementing Regulations.

³ Article 30(4), [Lease or license of Residential Real Estate], Implementing Regulations.

⁴ Article 1 [Definitions], Unified VAT Agreement.

⁵ Article 2 [Taxable Persons required or eligible to register in the Kingdom], Unified VAT Agreement.

⁶ Article 1 [Definitions], Unified VAT Agreement.

3. Economic Activity and VAT Registration

3.1 Who carries out an Economic Activity?

All businesses that carry on an Economic Activity are required to comply with obligations to register for VAT where required: and all VAT registered businesses must collect and remit VAT on their activities.

Business can be carried on by a legal person, such as an incorporated company, or by a natural person (an individual). Provided that an incorporated company has a regular activity making supplies (sales or income), it will be presumed to have an Economic Activity.

Natural persons may enter into transactions as part of an Economic Activity, or as part of their private activity. As the real estate sector often sees individuals selling or renting properties, there are specific rules to determine when a natural person falls within the scope of VAT.

3.2 Supplies made by a natural person – sale or rent

Generally any regular activity involving making supplies of Real Estate by a natural person is considered an Economic Activity for VAT purposes. In the Real estate context, this includes any rental contract on which revenue is collected. Rentals will therefore always be carried on as part of an Economic Activity, although rental of residential Real Estate will be exempt from VAT as discussed in more detail under Section 5 (Rental of Real Estate).

A specific rule applies to sales of Real Estate. In all cases, the sale of any property (whether commercial, residential, or bare land etc.) will be considered an Economic Activity. However, this excludes cases where the property being sold was used or intended to be used as a permanent dwelling by the seller, or one of the seller's close family members before the sale.⁷

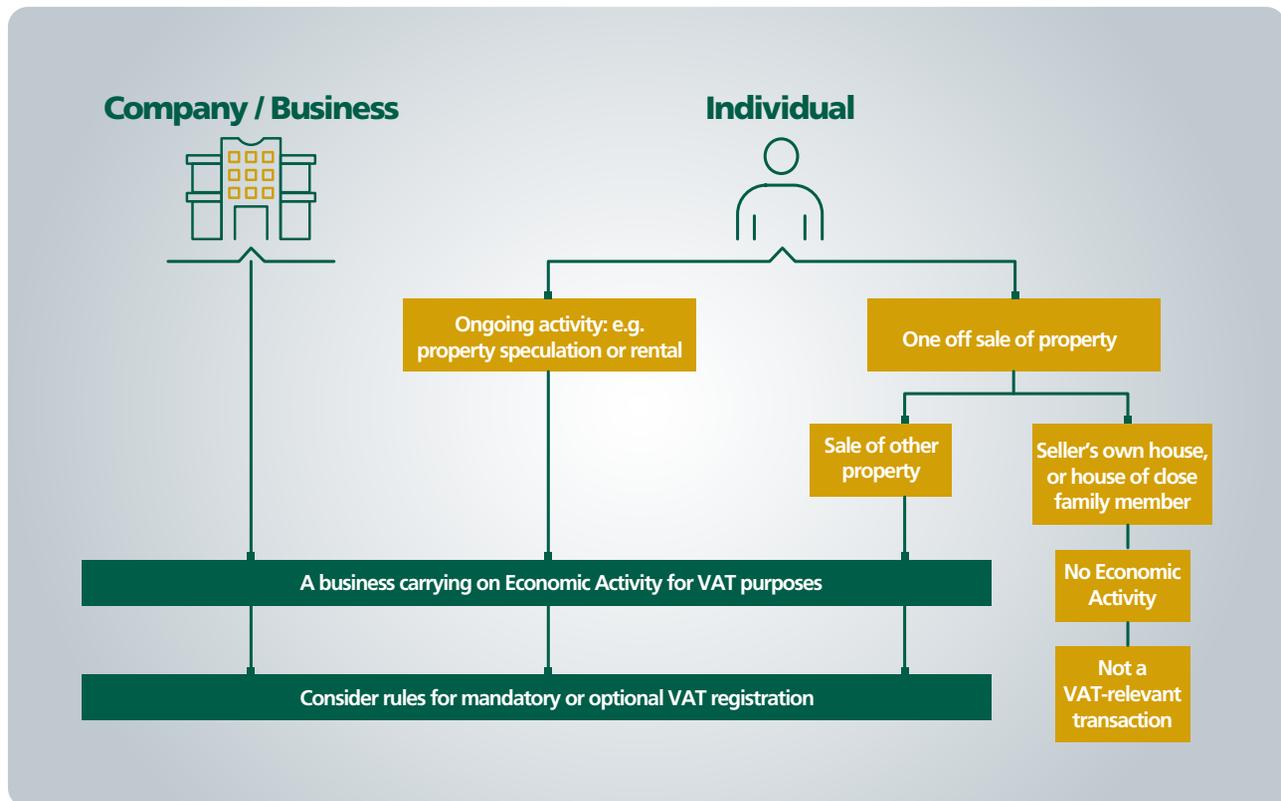
A close family member is any relative to the fourth degree (including a parent or grandparent, child or grandchild, sibling, aunt, uncle, nephew or niece, cousin, a spouse, or a brother-in-law/sister-in-law).⁸

Accordingly, where a person sells their own home or that of a close family member, this will be presumed to be a private transaction, i.e. not an Economic Activity, and not subject to VAT.

When sales of property by a natural person does not fall within the exception stated in this Sub-Section, such persons will be considered to be carrying on an Economic Activity. Such natural persons should thus register for VAT where required based on the registration tests described below under Section 3.3.

⁷ Article 9(7), [Registration provisions applying to specific circumstances], Implementing Regulations.

⁸ Article 37(2) [Related Persons], Implementing Regulations.



3.3 Mandatory registration

Registration is mandatory for all persons whose annual turnover exceeds a certain threshold. If the total value of a person's taxable sales during any 12 months period exceeds SAR 375,000 (the "mandatory VAT registration threshold"), that person must register for VAT on the sale and any other taxable supplies made.^{9 10}

The total taxable sales does not include¹¹:

- Exempt income – such as any residential rental which qualifies for VAT exemption;
- Sales which relate to real estate outside of the GCC States; or
- Capital assets – in general, a capital asset is considered to be an asset intended for long-term business use¹². In a real estate context, GAZT's position is that any real estate that has been used in a business capacity for five years or more may be considered to be a capital asset. However, real estate which is purchased with the intention of resale is not a capital asset and counts towards the registration threshold.

Example: Abdullah has a residential property which he has rented to private tenants for 12 years. In 2020, he sells the property to an investor for SAR 1.5 million. Neither the exempt rental income nor the sale of the property as a capital asset are counted towards the VAT registration threshold. Abdullah does not need to register for VAT.

⁹ Article 50(1)(2) [Mandatory Registration], Unified VAT Agreement.

¹⁰ Article 3 [Mandatory Registration - Supplies Exceed the Mandatory Registration Threshold], Implementing Regulations.

¹¹ Article 52 [Calculating the Value of Supplies], Unified VAT Agreement.

¹² Article 1 [Definitions], Unified VAT Agreement.

If Abdullah had purchased the house in 2019, the sale in 2020 would not qualify as a long-term capital asset. Abdullah would be required to register for VAT as his annual sales exceed the mandatory threshold.

In certain circumstances, other tests will apply for mandatory registration:

- Non-Resident businesses are required to register where they make any value of sales for which they are obliged to collect and pay the VAT¹³
- During the transitional period (ending 1 January 2019), businesses with an annual turnover exceeding SAR 375,000 but not exceeding SAR 1,000,000 are granted a grace period for registration up to 1 January 2019 (provided applications to register are submitted no later than 20 December 2018).¹⁴ This grace period does not apply to business with a turnover exceeding SAR 1,000,000.¹⁵

More information on mandatory registration for VAT may be found at vat.gov.sa

3.4 Optional registration

Any Resident person who has taxable sales or taxable expenses exceeding the “optional VAT registration threshold” of SAR 187,500 in a twelve-month period may register for VAT on a voluntary basis.^{16 17}

Optional VAT registration may be desirable where a business wishes to claim VAT charged to it on their costs before invoices are raised or the occurrence of an onward supply.

***Example:** ABC LLC is a KSA company who has a contract to construct a commercial building in Riyadh, with invoices for its milestone payments able to be raised starting from January 2020. However, it incurs significant costs of SAR 2 million from local suppliers during the first quarter 2019 in respect of feasibility and planning studies, before any invoices are raised to its customer. ABC LLC is able to register on an optional basis as its annual taxable expenses exceed the voluntary VAT registration threshold.*

More information on voluntary registration for VAT is contained at vat.gov.sa

¹³ Article 5(1), [Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom], Implementing Regulations.

¹⁴ Article 79(9) [Transitional Provisions], Implementing Regulations.

¹⁵ Article 79(9) [Transitional Provisions], Implementing Regulations.

¹⁶ Article 7 [Voluntary Registration], Implementing Regulations.

¹⁷ Article 51 [Voluntary Registration], Unified VAT Agreement.

4. The VAT treatment of Real Estate

By default, VAT is applied to any Real Estate transaction situated in the KSA. However, some exceptions apply for Residential Real Estate transactions.

Sale of Residential Real Estate is standard rated. However sale of Residential RE is not an Economic Activity (thus outside the VAT scope) if prior to supply, the RE was used or intended for use as a permanent dwelling by the Person or by a relative to the 4th degree. [Article 9(7), Implementing Regulations].

Below is a summary of the VAT treatment of Real Estate in KSA:



4.1 Below is a summary of the VAT treatment of Real Estate: Sale of Real Estate

The sale – by way of transfer of ownership – of Real Estate situated in the KSA is considered a supply of goods for VAT purposes and is subject to VAT at 5%. This applies regardless of whether or not the supplier or recipient is a Resident in the KSA.

The standard rate of 5% applies to sales of all Real Estate. Therefore, this includes:

- The sale of a house, apartment or other Residential Real Estate
- The sale of any commercial Real Estate;
- Any transfer of ownership of bare or undeveloped land;
- The sale of partly completed construction works.

4.1.1 Contracts considered as sales of Real Estate

The transfer of freehold title in a property for consideration is a sale of Real Estate, which the recipient obtains “full” ownership, being the right to dispose of that property.

Any other transaction which has the effect of giving the recipient rights of full ownership in Real Estate, or which provides the option to acquire or obtain full ownership of the Real Estate is also considered a supply of goods and is therefore subject to VAT.¹⁸

Example: A finance lease in Real Estate is an agreement which generally allows the lessee possession to the Real Estate for a set period, with the lessee having the option to acquire or obtain freehold title at the completion of the contract on payment of a ‘balloon payment’. As this lease contemplates the transfer of ownership, it is considered as a supply of property as goods for VAT purposes (whether or not full ownership does later transfer).

All payments made under such a contract for the Real Estate, including any balloon payment due at completion, relate to the supply of the Real Estate. The financing component of payments made under a finance lease may, however, be treated as an exempt financial service. A separate guideline provides further information on the VAT treatment of finance leases.

4.1.2 Exception for sales of personal dwellings

An exception to the above rule is applied on the sale of Residential Real Estate. Prior to the supply, if the Real Estate was used or intended to be used as a permanent dwelling by the Person, or by the related person, it falls outside the scope of VAT as it is not considered to form part of an Economic Activity.

Further detail on sales by natural persons is discussed in section 3.2 above.

4.1.3 Special rules for title transfers as part of financing products

In some cases, as part of specific financial services products (such as loan to purchase land or Islamic financing products), the title to a specific piece of Real Estate will pass to the finance provider or a third party. However, it is not intended that possession of the Real Estate will change as the title is returned back at the end of the contract.

In these cases, the title to land is held as a security only; the right to dispose of the property is not transferred (unless another event such as a default takes place). As such, the transfer of title without the right to dispose of the property is not considered a supply for VAT purposes¹⁹. Further information on these special rules is provided in a separate guideline on financial services.

Example: Khalid requires financing and seeks a debt security against his personal property purchased for SAR 2.1 million (price includes SAR 100,000 VAT in June 2018). ABC Financing offers a debt security, but requires Khalid to transfer the title deed to his property as collateral. ABC Financing is unable to dispose of the property, unless Khalid defaults on the debt security. The transfer of the title deed to ABC Financing, and the return of the title deed at the conclusion of the debt security, is not considered a supply of the property for VAT purposes.

¹⁸ Article 5 [Supply of Goods], Unified VAT Agreement.

¹⁹ Article 29(4) [Financial Services], Implementing Regulations.

For VAT purposes, the transactions are categorized as follows:

1. *House seller sells the property to Khalid. VAT is charged, which is not deductible to Khalid for the purchase of property.*

Supply of property by house seller	Value of SAR 2,000,000	VAT charged at 5%: SAR 100,000 collected and paid to GAZT
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2. *ABC Financing provides loan of SAR1,000,000 to Khalid. No VAT is charged on the issue of a debt security by ABC Financing. The transfer of the title as collateral is not a supply of property.*

Provision of loan by ABC Financing	Value of SAR1,000,000	VAT exempt – no VAT collected
Provision of title deed as collateral by Khalid	No separate value – used as collateral only	No supply of goods or services by Khalid – no VAT collected

3. *Khalid makes monthly repayments of SAR 25,000 over the course of the loan – across a four-year period, he pays SAR 1,2000,000. The profit element earned by ABC Financing is VAT exempt.*

Repayments by Khalid to ABC Financing	Monthly value of SAR25,000	Profit element is VAT exempt – no VAT collected
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4. *Once the loan is repaid, ABC Financing returns the title of the property to Khalid. The transfer of property by a business is usually a supply of goods – but the transfer of collateral is not the supply of property.*

Repayments by Khalid to ABC Financing	Monthly value of SAR25,000	Profit element is VAT exempt – no VAT collected
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In this example, VAT is only collected on the initial supply of the real estate. No VAT arises from the property financing provided by ABC Financing.

5. Rental of Real Estate

Rental is a supply by way of lease or licence of any property. In a real estate context, this is designed to include all agreements which allow a person to occupy or use Real Estate without transfer of ownership or equivalent long-term rights in a property.

An exemption applies to the rental of real estate for residential purposes.

A finance lease (or any lease-to-own arrangement), where the lessee is given the option to obtain full ownership at a later point, is considered as a sale of the Real Estate as goods. Such transactions do not qualify for the exemption for residential rental.

5.1 Exemption for rental of Residential Real Estate

The rental of Residential Real Estate in the KSA is exempt from VAT provided that²⁰:

²⁰ Article 30 [Lease or License of Residential Real Estate], Implementing Regulations.

- The property is a permanent dwelling designed for human occupation; and
- The property is intended for use as a primary residence.

The exemption for Residential Real Estate applies to the rental of properties used as the residence of an individual, family or other group of natural persons. This will include houses, flats and apartments used as a “primary residence”.

A primary residence may also encompass other dwellings, such as residential accommodation for students, or employees – provided this is a dwelling which the person or persons use as a primary residence on a regular or habitual basis and returns back to after periods of absence. It is not required that a primary residence be a person’s sole place of residence.

Example: Abdullah’s family lives in the main family home in Lebanon, but Abdullah works in Al Khobar, and rents an apartment where he stays from Sunday to Thursday each week. The apartment is used by Abdullah on a regular basis as his primary residence, despite him also having a home in Lebanon.

Example: ABC School has onsite boarding units where pupils live during the school term for an additional fee. This is the pupil’s primary residence during the school term, to which they will return after each school holiday. The provision of accommodation in the boarding units are a primary residence and the charges by the school are exempt from VAT.

A property used as seasonal holiday accommodation, or as short-term worker accommodation will not be viewed as Residential Real Estate. The rental of this accommodation will be subject to VAT at 5%.

Temporary accommodation in hotels, inns, guest houses, motels, serviced accommodation or any other building that is designed to offer temporary accommodation to visitors or travellers are not considered as Residential Real Estate and do not qualify for exemption.

Example: A four month stay by a traveller in a building offering serviced apartments is not a supply of residential rental as the serviced apartments are not held out for rental as residential units. Only accommodation held out for rental as residential units and used as a regular residence qualify for exemption. Therefore, the accommodation will be subject to VAT at 5%.

5.2 Commercial rental and other supplies of Real Estate

All other supplies of Real Estate in the KSA that are made as part of an Economic Activity are taxable.

This includes the lease or licence of any commercial property or any other property which does not qualify as Residential Real Estate. This includes, for example:

- Annual lease of office blocks;
- Rental of a plot of vacant land (regardless of whether this is zoned as commercial or residential property);
- A licence to use a manufacturing or industrial facility.

The zoning of land as commercial or residential does not affect the VAT treatment. Any supplies which do not meet the exemption for Residential Real Estate are subject to VAT at 5%.

5.2.1 Short term accommodation

The provision of accommodation or lodging in a hotel, motel, guest house, serviced accommodation or similar establishment does not qualify for VAT exemption as a residential rental²¹. A guest in these facilities does not stay here as a regular or primary residence; these

²¹ Article 30(3), [Lease or license of Residential Real Estate], Implementing Regulations

are used as temporary accommodation only. Any building which is designed to offer temporary accommodation to visitors or travellers, or which holds itself out as the provider of this accommodation does not qualify for exemption.

Similarly, hosted accommodation and other rental offered through online platforms and held out for use as short-term accommodation will be presumed to be short-term accommodation and subject to VAT (provided the supplier is a VAT-registered person).

There is a range of accommodation offerings in the market, and the individual characteristics of these may differ in practice. To determine whether the VAT exemption applies, the supply should be assessed based on:

- a) whether the property will be used as a regular residence; and/or
- b) whether it is held out for rental on a short-term or serviced basis.

For example, seasonal or holiday accommodation is not used as a regular place of residence, and therefore does not qualify for VAT exemption as the rental of residential accommodation.

5.3 Rental of dual purpose Real Estate

In cases where a lease or licence is granted to the same Real Estate for both residential and commercial or non-residential purposes, such as a building with commercial tenants occupying the lower floors and residential dwellings on the upper floors, this is a mixed supply of both taxable and exempt Real Estate. VAT should therefore be charged on the portion of the supplies which relate to the commercial or non-residential use.

In case a single price is charged for the whole building, including both the residential and non-residential parts, the lessor must split the value of the supply in a way that accurately reflects the value of the relevant components. In a mixed building, a split based on the proportion of floor space between residential and non-residential parts may be used as a default unless this does not accurately represent the value of the components of the building. Common areas may be split depending on estimated usage, or disregarded where these are ancillary to the remainder of the property. It is the supplier's responsibility to review any apportionment to ensure that it accurately reflects the corresponding values of taxable and exempt supplies made.

Example: Ibrahim owns a fifteen floor tower in Riyadh, with five floors being used for commercial activities and the other ten being regular residential apartments.

He charges a property management company an annual lease of SAR 150 million. Using an apportionment based on floor space, VAT would only be charged on the non-residential component of the lease, being SAR 50 million.

5.4 Additional services

In many cases, a landlord may make an additional charge for services provided in connection with the rental of commercial or Residential Real Estate – for example: maintenance fees, charges for utilities, car parking etc. Charges for additional services are generally a separate supply of services which will be subject to VAT in accordance with the normal VAT treatment applying to those supplies. They do not fall within the exemption for rental of Residential Real Estate, even where provided in connection with a residential contract.

Example: A landlord rents multiple apartments to individual tenants for SAR5,000 per month. There are a limited number of car parking spaces, so tenants may choose to pay an additional SAR 300 per month for monthly use of the car park. The rental is exempt from VAT, but the optional charge for car park usage is charged with VAT.

6. Construction

6.1 Application of VAT to construction contracts

All construction services performed in the KSA, or any contract to construct a residential or commercial building in the KSA – including the activities of sub-contractors on any such project - is a supply of services which is subject to VAT at the 5% rate.

This includes Engineering, Procurement and Construction contracts (EPC) and Lump Sum Turn Key (LSTK) contracts. Whilst these contracts involve the provision of component parts, they are seen in totality as one contract for services.

6.2 Accounting for VAT on construction contracts

The provision of construction services is considered to be a “continuous” supply of services. Therefore, VAT becomes payable based on each progressive payment, according to the following rules:

- Where contracts have specified payment due dates at set milestones, VAT becomes payable on the due date or the date of actual payment, whichever comes first.²²
- In all other cases, VAT becomes payable for each progress payment at the date of issuing the invoice or the date of actual payment, whichever comes first.²³

Further details on determining the date of supply is given in Section 9 [VAT Reporting].

6.3 Retention payments

A part of the payment due to the service provider under the contract may be withheld as a retention payment by the developer or recipient until the work is certified as complete. The retention payment does not affect the above rules: VAT will still be due on the basis of the full amount invoiced or full amount due at that milestone.

6.4 Deduction of VAT incurred during a construction contract

A contractor is able to register on an optional basis where its expenses exceed the voluntary VAT registration threshold of SAR 187,500 (see Sub-Section 3.4 Optional VAT Registration for further detail). This allows contractors to register before invoices are able to be raised in respect of a construction project.

For any VAT-registered person, deduction of input VAT charged on materials, sub-contractors, or other suppliers is available in the monthly or quarterly period in which it is incurred, on the basis that it is intended for use in a construction project on which that person will charge VAT.

²² Article 20(1) [Date Of Supply In Specific Circumstances], Implementing Regulations.

²³ Article 20(2), [Date Of Supply In Specific Circumstances], Implementing Regulations.

7. Place of Supply

7.1 Residence of supplier

Where a supply of Real Estate is made by a Resident Supplier, that Supplier is responsible for registering for VAT (in accordance with the registration rules) and charging VAT at the appropriate rate. A Resident Supplier may be a company if it is formed under Saudi Arabian regulations or if its central management is located in the KSA. If a company or other legal person is incorporated outside of the KSA, but has a branch, place of business or other type of fixed establishment in the KSA, that company is also a Resident.²⁴

7.2 Real Estate Related Services

There are particular rules to determine the country in which VAT is charged on most provided services related to Real Estate, i.e., "Real Estate-related services".

Real Estate-related services are those which affect or are related to a specific area of Real Estate or to a specific site of immovable property.²⁵

Generally, services that are related to Real Estate are those services where a specific area of Real Estate is an integral part. For example, the rental of Real Estate, or provision of accommodation involves the supply of a specific area of Real Estate that is a central part of the service. Therefore, this is a supply of Real Estate-related services.

Services which affect Real Estate are those designed to legally or physically alter a specific area of Real Estate. This includes, but is not limited to, the following examples:

Legally altering land – includes professional services such as those supplied by estate agents, auctioneers, architects, surveyors, engineers and others involved in matters relating to a Real Estate.

This does not include general consultancy provided by these professionals which does not relate to a specified property.

Physically altering land - construction, demolition, conversion, reconstruction, alteration, enlargement, repair or maintenance of a building or Real Estate.

7.3 Charging VAT on Real Estate

All sales of Real Estate in the KSA, and services relating to Real Estate in the KSA will be subject to the VAT²⁶, regardless of the country in which the supplier or recipient resides. The residence of the supplier and recipient only affects the mechanism for how VAT is charged.

7.3.1 KSA resident Supplier

A Resident Supplier must issue a tax invoice for a supply on which VAT is charged.

For taxable supplies subject to the standard 5% rate, VAT is charged at 5% of the total value of the supply. The value of the supply is the VAT-exclusive amount. Depending on the agreement

²⁴ Article 1 [Definitions], Unified VAT Agreement.

²⁵ Article 23(2)[Real Estate Related Services], Implementing Regulations.

²⁶ Article 19, [Supply of Real Estate Related Services], Unified VAT Agreement.

between the supplier and the customer, the VAT will either be calculated in addition to the agreed price, or as part of a VAT-inclusive price.

In cases where the supplier receives a single (VAT-inclusive) amount of consideration for the supply, VAT is included within the consideration received (calculated as 5/105 of the amount received). In this case, the value of supply is the amount of consideration minus VAT.

Further information on special rules for 'grandfathering' existing contracts is set out in Section 11 below.

Example: ABC LLC charges XYZ WLL, a Bahraini company, for rental of vacant land near to Dammam. As the land is situated in the KSA, ABC LLC must charge KSA VAT on the supply of services.

The price is agreed at SAR 6,000 per month. If the price is expressed as "VAT exclusive", or the contract allows ABC LLC to charge VAT on top of the price, the invoice will show:

Monthly Rental	6,000	(Value of the supply)
VAT at 5%	300	(Vat = Value x 5%)
Total due	6,300	(Total consideration payable)

If the parties to the contract have agreed that the price is "VAT inclusive", the VAT must be calculated as 5/105 of the total price. The invoice will show:

Monthly Rental	5,714.29	(Value of the supply)
VAT at 5%	285.71	(VAT = consideration x 5 /105)
Total due	6,000	(Total VAT-inclusive consideration payable)

7.3.2 Non-resident Supplier in the KSA

If a supply of Real Estate is made by a non-Resident Supplier to a recipient residing in the KSA and is registered for VAT, the Supplier should not charge VAT. The recipient is responsible for reporting VAT (at the appropriate rate) on their VAT return through the reverse charge mechanism. The non-Resident Supplier would not need to register for VAT with GAZT to report these supplies, and is not subject to the requirements for issuing tax invoices. Further information on the reverse charge mechanism is provided in the VAT Manual.

Example: XYZ WLL, a Bahraini company charges ABC LLC, a KSA company, for painting their commercial premises in Dammam. As the services are connected with Real Estate in the KSA, VAT is chargeable in the KSA. However, as the supplier is a non-Resident and ABC LLC is registered for VAT, it is ABC LLC who must report the KSA VAT on the supply of services.

The price for the services are agreed at SAR 4,000. The invoice will show:

Services	4,000	(Value of the supply)
Customer to account for VAT under the Reverse Charge Mechanism	-	(Customer will self-account for VAT at 5% of the value)
Total due	4,000	(Total consideration payable)

No VAT will be shown on the invoice, but the customer, ABC LLC, will include the imported service in Box 9 of its VAT return:

		Amount (SAR)	VAT Amount (SAR)
9	Imports subject to VAT accounted through Reverse Charge Mechanism	4,000	200

If a supply is made by a non-Resident supplier to a customer who is not registered, the supplier is responsible for registering for VAT and charging VAT as appropriate.

7.4 Real Estate situated outside of the KSA

The supply of Real Estate situated outside of the KSA falls outside the scope of KSA VAT. Likewise, the supply of Real Estate related services in connection to Real Estate situated outside of the KSA are not subject to VAT in KSA.²⁷

8. Input VAT Deduction

8.1 General Provisions

A VAT registered person may deduct Input VAT charged on goods and services it purchases or receives in the course of carrying on its Economic Activity. Input VAT may be deducted on:

- VAT charged by a VAT - registered supplier in the KSA;
- VAT self-accounted by the VAT-registered person under the Reverse Charge Mechanism; or
- Import VAT paid to the Customs Department on imports of goods.

As a rule, input VAT which is related to the taxpayer's VAT exempted activities, such as Residential Real Estate, is not deductible as input VAT.

In addition, input VAT may not be deducted on any costs not incurred as part of the Economic Activity (including some blocked expenditure types such as entertainment and motor vehicles), or on any costs which relate to making exempt supplies.²⁸

This input VAT is a credit entered on the VAT return which is offset against the VAT charged on supplies (output VAT) made during that period.

Input VAT may only be deducted where the Taxable Person holds a tax invoice, or sufficient evidence of the amount of Input VAT paid or payable if approved by GAZT²⁹.

²⁷ Article 19, [Supply of Real Estate Related Services], Unified VAT Agreement.

²⁸ A detailed list of the blocked expenditures is listed under Article 50 of the Implementing Regulations.

²⁹ Article 49(7)[Input Tax Deduction], Implementing Regulations.

8.2 Application to Real Estate

8.2.1 Timing of Input VAT deduction

In general, an Input VAT deduction should be available in the monthly or quarterly period where the goods and services were purchased, provided the taxpayer can prove they relate to (current or future) taxable transactions. It is not necessary to make a specific onwards supply in order to deduct the Input VAT as credit.

Deduction of Input VAT is based on intended use at the time of purchase. In Real Estate sales, a long period may fall between the purchase and any onward 'use' by resale.

Properties may be rented on a short-term basis as a secondary purpose to the primary purpose of their onward sale. Therefore, Input VAT deduction should depend on the primary purpose upon resale.

Example: Hussein is charged VAT on the purchase of an apartment which he intends to sell. He rents out the apartment as a residence for twelve months whilst searching for a purchaser. Hussein charges VAT when he sells the apartment, but the rental income he derives is exempt.

Hussein's intention at the time of purchase is to sell the apartment and the exempt rental is a short term activity and not as an Economic Activity. The purchase of the apartment is deductible as it is directly attributable to the onwards sale.

8.2.2 Capital Assets

Capital assets are held for a long-term as a business investment. VAT deduction is available upfront based on the intended use at the time of purchase.

In the real estate sector, taxpayers are required to monitor the usage of buildings and Real Estate which are long-term capital assets over a 'useful life' period of 10 years, and make annual adjustments to the upfront VAT deduction where the actual use changes.³⁰

Example: ABC LLC purchases a villa in January 2019 for exclusive use in its taxable business activities. It pays SAR 10.5 million, including SAR 500,000 of VAT. ABC LLC deducts all of this as Input VAT in its VAT return upon purchase.

It continues using the building exclusively for taxable purposes for the next 7 years, and is therefore not required to make any adjustment at the end of these years.

In January 2026, it receives permission to rent half the villa as a permanent residence – and its use therefore immediately changes to 50% taxable and 50% exempt. For the remaining 3 years of the 10-year useful life, it is required to adjust the Input VAT deducted upfront to reflect the partly exempt use.

Each year's portion of the input VAT is SAR 50,000. An adjustment of SAR 25,000 must be made at the end of each year to reduce the Input VAT recovered upfront by 50%.

Further details and examples regarding Capital Assets will be provided in a separate guideline.

³⁰ Article 52[Capital Assets], Implementing Regulations.

8.3 Partial deduction: attribution of Input VAT

VAT incurred which relates to a taxpayer's VAT exempt activities, such as residential rental, is not deductible as Input VAT. A person making both taxable and exempt supplies can only deduct the Input VAT related to taxable supplies.

For these businesses, available Input VAT must be determined using the following process:³¹

Input VAT directly attributed to taxpayer's taxable sales	Deduct in full
Input VAT directly attributed to taxpayer's exempt sales	No deduction
Overheads and all other input VAT that cannot be directly attributed	Partial deduction based on apportionment

The overhead costs/expenses incurred by the Taxable Person for making both taxable and exempt supplies must be apportioned to most accurately reflect the use of those costs in the taxable portion of the taxpayer's activities.

A prescribed default method of proportional deduction is calculated on the values of supplies made in the year, using of the following fraction:

$$\frac{\text{The value of **Taxable Supplies** made by the Taxable Person in the last calendar year}}{\text{The total value of **Taxable Supplies** and **Exempt Supplies** made by the Taxable Person during the last calendar year}}$$

The fraction for the default method does not include supplies of Capital Assets made by the taxpayer, as these distort the use of input VAT.

Example: ABC LLC provides both long term residential rental (VAT exempt) and short term accommodation (charged with VAT) in one complex.

During 2019, it had the following outputs and inputs

Sales and outputs (in SAR)	Value	VAT charged	
Short-term accommodation	750,000	37,500	
Residential rentals (exempt)	500,000	-	
Sale of former office building	2,000,000	100,000	
Expenses and inputs	Value	Input VAT	VAT deduction
Relating to short-term accommodation	250,000	12,500	12,500
Relating to residential rentals (exempt)	60,000	3,000	No VAT deduction
Relating to sale of office building	40,000	2,000	2,000
Overheads – not attributed to any activity	80,000	4,000	2,400 Proportional

³¹ Article 51[Proportional Deduction Of Input Tax], Implementing Regulations.

ABC LLC can deduct input VAT directly relating to its taxable income. For its overheads, it must complete the value of taxable and exempt supplies, less the sale of the office building (which is a capital asset)

$$\text{Proportional recovery: } \frac{\text{Total Taxable Supplies}}{\text{Total Taxable plus Exempt Supplies}} = \frac{750,000}{1,250,000} = 60\%$$

ABC LLC's proportional deduction of Input VAT on overheads is $60\% \times 4,000 = \text{SAR } 2,400$

Alternative attribution methods, using calculation approaches other than the value of supplies may be approved by GAZT in cases where these better reflect the actual use of VAT incurred. Further information about deduction of VAT and proportional VAT recovery will be provided in a separate guideline.

9. VAT Reporting

9.1 Date of supply

9.1.1 Sale of Real Estate

For the sale of Real Estate, VAT becomes due on the date that property is transferred to the recipient. However, VAT can become due earlier if:

- a tax invoice is issued by the supplier before the transfer date; or
- the recipient pays a deposit or any other amount to the supplier.

VAT becomes payable on the earlier date of invoicing or payment only to the extent that payment is made.³²

Example: A landowner sells Omar a piece of bare land for SAR 2.1 million (including VAT of SAR 100,000). Omar pays a deposit of SAR 525,000 (including SAR 25,000 VAT) on 29 March. The landowner issues an invoice on 14 April and the property transfers on 30 April.



³² Article 23(1) [Date of Tax Due on Supplies of Goods and Services], Unified VAT Agreement.

VAT is due by the landowner as follows:

Deposit paid on 29 March (25% of the land value)	500,000
VAT due at 5% on 29 March	25,000
Total deposit paid by Omar	525,000
Invoice issued on 14 April (75% of the remaining value of the land)	1,500,000
VAT due at 5% on 14 April	75,000
Final payment paid by Omar	1,575,000

The payment of a security deposit to a notary or other third party, which is held and not made available to the supplier, is not an advance payment for VAT purposes. This form of deposit does not result in VAT becoming due.

9.1.2 Rental and continuous supplies

Most services in the Real Estate sector, including rental and construction services, are viewed as a continuous supply. This is because the goods or services are supplied to the recipient continually over a period of time, rather than having one date of delivery. VAT becomes due on continuous supplies across the period the goods and services are provided, in line with the invoicing and payment arrangements.

Instalment agreements: Where the rental agreement requires payment of periodic instalments with the dates and values of each instalment agreed upfront, each instalment is viewed as a separate supply. VAT becomes due on each supply at the **earlier of the instalment due date or actual payment**.³³

All other continuous agreements: if no periodic instalments are specified in the agreement, a separate invoice will generally be issued for each supply of goods provided during a period. Each successive amount invoiced or paid is viewed as a separate supply. VAT becomes due at either **the invoice date or actual payment**, whichever comes first.³⁴

9.2 Issuing invoices

A supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any other legal person, by no later than fifteen days following the end of the month in which the supply is made.

The tax invoice must clearly detail information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged.³⁵ Further information on the requirements for tax invoicing can be found in the VAT manual or at vat.gov.sa.

³³ Article 20(1), [Date of Supply in specific circumstances], Implementing Regulations

³⁴ Article 20(2), [Date of Supply in specific circumstances], Implementing Regulations

³⁵ Article 53, [Tax Invoices], Implementing Regulations

9.3 Filing VAT Returns

Each VAT registered person, or the person authorised to act on his behalf, must file a VAT return with GAZT for each monthly or quarterly tax period. The VAT return is considered the taxable person's self-assessment of tax due for that period³⁶.

Monthly VAT periods are mandatory for businesses with an annual turnover exceeding SAR 40 million. For all other VAT registered persons, the standard tax period is three months.³⁷

The VAT return must be filed, and the corresponding payment of net tax due made, no later than the last day of the month following the end of the tax period to which the VAT return relates.

If the VAT return results in VAT due to the taxpayer, or if the taxpayer has a credit balance for any reason a request for a refund of this VAT may be made with the filing of the VAT return, or at any later time during the next five years. GAZT will review these requests and will make payment of approved refund requests directly to the taxpayer.³⁸

More information on filing of VAT returns is provided in a separate guideline.

9.4 Keeping records

All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable on a transaction and in a VAT return. This will generally include:

- tax invoices issued and received;
- books and accounting documents;
- contracts or agreements for large sales and purchases;
- bank statements and other financial records;
- import, export and shipment documents; and
- other records relating to the calculation of VAT

Records may be kept in physical copy, or in some cases electronically – and must be made available to GAZT on request.

All records must be kept for at least the standard retention period of 6 years. ***A longer minimum retention period of 15 years is required for invoices or records that relate to Real Estate***³⁹.

9.5 Your obligations

As a Taxable Person, you have an obligation to assess your own VAT liability, and to comply with VAT obligations. This includes registering for VAT when required, correctly calculating the amount of net tax you have to pay, paying tax on time, keeping all necessary records, and cooperating with officers of GAZT upon request.

³⁶ Article 62, [Tax Returns], Implementing Regulations.

³⁷ Article 58 (1), [Tax Period], Implementing Regulations

³⁸ Article 69[Refund of Overpaid Tax], Implementing Regulations.

³⁹ Article 66[Records], Implementing Regulations.

If you are not sure of your obligations, you should contact GAZT or other communication channels through vat.gov.sa

You could also seek external advice from a qualified professional.

9.6 Requesting a ruling

If, having consulted the relevant regulations, you are unsure on how VAT applies to a particular activity or transaction that you carry out or intend to carry out, you may apply to GAZT for a ruling⁴⁰. Requesting a ruling allows you to present the full facts of a particular activity or transaction to GAZT for consideration.

Rulings may be requested as:

- **Public:** in which case GAZT will publish details of the ruling, without any taxpayer-specific information; or
- **Private:** in which case GAZT will not publish the ruling.

The ruling request should include all information on the activity or transaction that you request a ruling for, and a description of the specific area of uncertainty in the law or guidance which you have considered. You may choose to describe the alternatives and what you consider to be the correct treatment.

GAZT is not obliged to respond to all requests for rulings. It will consider and prioritize requests based on factors such as:

- The level of information presented by the taxpayer in the request;
- The benefit to the wider taxpayer community in issuing a public ruling on the transaction or activity; and
- Whether there is existing law or guidance which addresses the request.

A public or private ruling issued by GAZT is not binding on GAZT or on any taxpayer in respect of any transaction carried out and it cannot be relied upon in any way.

9.7 Correcting past errors

If you are aware of an error or an incorrect amount in a filed VAT Return, or of any other VAT obligation which you have not complied with, you should notify GAZT and correct the error by amending VAT the tax return. Errors resulting in a net understatement of VAT (exceeding SAR 5,000) must be made known to GAZT within twenty (20) days of detecting the error or incorrect amount.

For small errors, resulting in an understatement of the net VAT of less than SAR 5,000, you may instead correct the error by adjusting the net tax in the following VAT return⁴¹.

Further information on correcting errors can be found through vat.gov.sa

⁴⁰ Article 75[Rulings], Implementing Regulations.

⁴¹ Article 63 [Correction of Returns], Implementing Regulations.

10. Penalties

Penalties or fines may be imposed on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations⁴².

Description of offence	Associated fine
Submitting false documents with the intent of evading the payment of the VAT due or to reducing its value or unlawfully obtaining refunds for tax	<ul style="list-style-type: none"> • At least the amount of the VAT due • Up to three times the value of the goods or service subject of the evaded tax
Move or attempt to move goods in or out of the Kingdom without paying the VAT due	<ul style="list-style-type: none"> • At least the amount of the VAT due • Up to three times the value of the goods or service subject of the evaded tax
Failure to register for the VAT in the allotted timeframe	SAR 10,000
Filing incorrect tax return, amend a tax return or file any document resulting in a lower amount due	Equal to 50% of the value of the difference between the calculated Tax and Tax due
Failure to file VAT return in time	5 - 25% of the VAT due
Failure to pay the VAT in time	5% of the VAT due for each month
Issuing a VAT invoice without being registered	Up to SAR 100,000
Failure to maintain books and records as stipulated in the regulations	Up to SAR 50,000
Preventing GAZT employees from performing their duties	Up to SAR 50,000
Violating of any other provision of the VAT regulations or the VAT law	Up to SAR 50,000

In all cases, if a violation is repeated within three years from the date of issuing the final decision of the penalty, the fine for the second offense may be doubled.

The level of the penalty or fine imposed is set by GAZT with regard to the taxpayer's behaviour and compliance record (including taxpayers meeting their requirements to notify GAZT of any errors and provide co-operation to rectify mistakes).

11. Transitional Rules related to Real Estate

VAT applies in principle on all transactions taking place on or after 1 January 2018, based on the date of supply rules described above.

Transitional rules will apply to ensure VAT applies equally on transactions made close to the transition date. Three rules of high relevance to the real estate sector are set out below. Further information on the transitional provisions is detailed in a separate guideline.

⁴² Chapter Sixteen: Articles (39), (40), (41), (42), (43), (44), (45), and (47), [Tax Evasion and Penalties], VAT Law.

11.1 Actual date of supply

Any supplier who issues an invoice or receives consideration before 1 January 2018 for a supply where the actual supply of goods or services takes place on or after 1 January 2018 must charge VAT based on the actual date of the supply.⁴³ This overcomes the rules to move the date of supply forward for a tax invoice or pre-payment, and prevents VAT being avoided by early payment or invoicing.⁴⁴

Returning to our example from the VAT obligations section:

Example: A landowner sells Omar a piece of bare land for SAR 2 million. Omar pays a deposit of SAR 500,000 on 29 November 2017. The landowner issues an invoice for 2 million on 14 December 2017 without VAT, and the property transfers on 30 January 2018.



As the payment and invoice were raised prior to 1 January 2018, the transitional rules apply and VAT is due based on the actual date of supply on 30 January 2018.

In this case, the supplier must issue an additional invoice showing the VAT charged of SAR 100,000 on the total taxable amount of SAR 2 million (which includes the deposit paid on the 29th of November 2017)

Supplies which actually take place in full before 1 January 2018 are not subject to VAT, regardless of whether an invoice is issued or the consideration is received in 2018.

11.2 Continuous supplies spanning VAT introduction date

All services provided on a continuous basis will only be subject to VAT to the extent these services take place after 1 January 2018.⁴⁵ In the real estate sector, continuous services include, but are not limited to, the following:

- Commercial and residential rentals;
- Construction services;
- Sales of property where the purchaser obtains possession to the house upfront but does not obtain unconditional ownership until the end of a specific period.

Any invoice issued for rental or other continuous services for a period spanning 1 January 2018 should have VAT charged on the portion of consideration which relates to the period from 1 January 2018 onwards.

⁴³ Article 21(1) VAT Law

⁴⁴ Article 79 (1) & (2)[Transitional Provisions], Implementing Regulations.

⁴⁵ Article 21(3) VAT Law.

Example: A commercial landlord issues an invoice on 29 November 2017 for rental of office premises from the one-year period from November 2017 to October 2018. The agreed price is SAR 120,000.

Rental is a continuous service, and regardless of the date of the invoice, VAT should only be applicable to the portion performed after 1 January 2018. For a rental contract, this would be split evenly based on time the property is available. Assuming the landlord has agreed that the price is VAT-exclusive, the invoice will therefore show:

Goods and Services provided	Value (SAR)	VAT charged	
Rental for 1 November 2017 – 31 December 2017	20,000	-	(Portion performed before 1 January 2018)
Rental for 1 January 2018 – 31 October 2018	100,000	5,000	(Portion performed on/ after 1 January 2018)
Total amount due	120,000	5,000	SAR 125,000

11.3 Relief for contracts not anticipating the application of VAT ('grandfathering')

Many contracts clearly state that the price is inclusive or exclusive of VAT, or have terms and conditions setting out how change in taxes will affect the price payable. These contracts are presumed to anticipate the application of VAT to the supplies of goods and services.

Agreements where the contract and its associated terms and conditions will generally be considered as contracts which **do not anticipate the application of VAT** to a supply of goods and services and therefore the grandfathering rules may apply. These conditions include:

- State a price which does not indicate if it is inclusive or exclusive of VAT (or taxes); and
- Have no mechanism to adjust the price for a change to VAT (or taxes) applying to the goods and services provided under the contract, also known as 'Tax stability clause';

A relief (often referred to as 'grandfathering') allows for supplies made under certain existing long-term contracts to be zero-rated for a transitional period up to 31 December 2018.⁴⁶

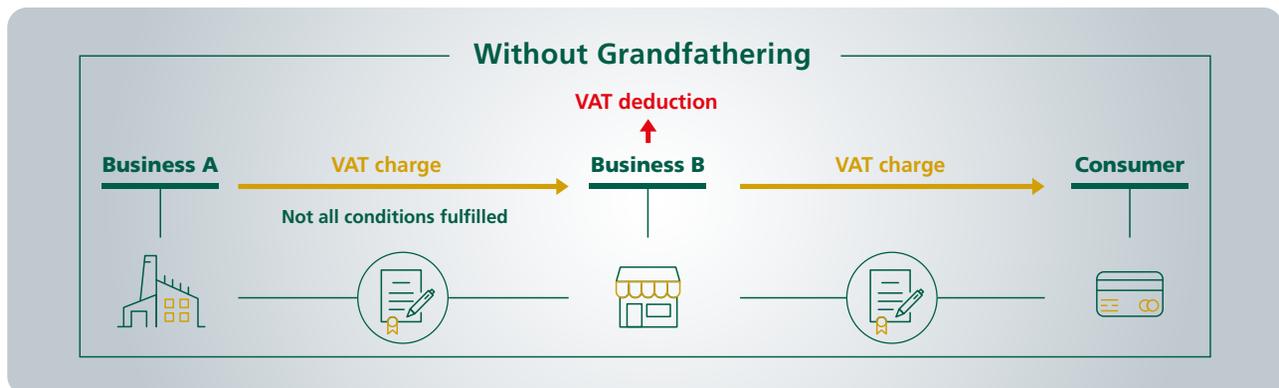
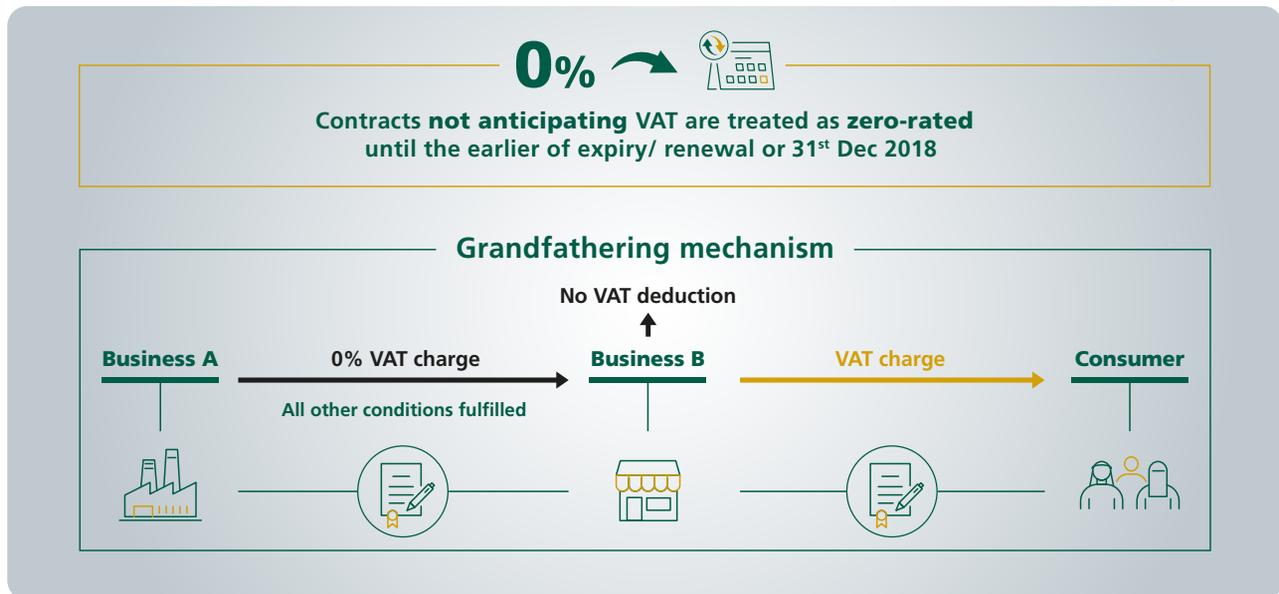
This allows suppliers and customers who had entered into longstanding contractual commitments without VAT, an additional year to review the contracts and agree the correct price.

In these cases, supplies made in respect of contracts for taxable Real Estate activities and which do not anticipate the application of VAT may be treated as zero rated by the supplier until the earlier of the time the contract expires, is renewed, or 31 December 2018, provided that all the following conditions are met:

⁴⁶ Article 79(3) [Transitional Provisions], Implementing Regulations.

1. the contract was entered into before 30 May 2017.
2. the customer is entitled to deduct Input VAT in relation to that supply in full; and
3. the customer provides a written certification to the supplier that he is able to deduct/refund the Input VAT in relation to that supply in full.

GAZT Cash flow impact: ■ Positive ■ Neutral ■ Negative



11.3.1 Certification

Further rules on grandfathering and certification are provided in a separate guideline. Key points relevant for the real estate industry are:

- The customer should provide a response to a supplier on request, without unreasonable delay.
- Certification should relate to the customer's ability to recover VAT on that particular supply (or those particular supplies), and is not a confirmation that the customer can deduct VAT in full on all supplies received.
- A written certification can be made over any means (including electronic communication) from the customer, provided it confirms on behalf of the customer of his right to deduct input VAT in relation to that supply or those supplies.

11.3.2 Residential rental

Grandfathering relief only applies to supplies that would have otherwise been taxable. A supplier cannot apply grandfathering relief to zero-rated or exempt supplies of residential rental.

12. Contacting us

For more information about VAT treatment, kindly visit our website: VAT.GOV.SA; or contact us on the following number: 19993

Appendix: Frequently Asked Questions

1. Is the lease of serviced apartments eligible to be considered as an exempted supply?

No, only the lease of units that are qualified as residential units and used as a regular residence are exempted from VAT.

2. Is VAT deductible on expenses incurred during a construction project upfront, before the project is completed or payment received?

In principle, yes. There is no restriction to deduct Input VAT incurred which is related to the intended taxable supplies to be made in future and being part of the economic activity of the business. VAT may be deducted by a registered taxable person provided he meets the relevant criteria to deduct VAT in respect to the goods and services received.

3. Are there any types of expenses on which I cannot deduct VAT incurred as input VAT?

Any VAT incurred on purchases that are not related to the economic activities of the business cannot be deducted. Additionally, taxable persons will not be able to deduct the input tax incurred related to the blocked deduction items which are specified in Article 50 of the implementing regulations – such as entertainment expenditure and certain motor vehicles.

4. How does VAT apply in the case of lease contracts signed before 1 January 2018?

Only the portion of the lease related to the supply that will take effect on or after 1 January will be applicable for VAT purposes (i.e. subject to tax at 5% for a commercial lease and exempted in case of a residential lease).

5. I used to grant my tenants a one month free of lease charge? How does VAT apply?

In most cases, the free month will be provided as a discount from the payable consideration. Therefore, the taxable lease will be calculated on the net amount received (actual received consideration).

If a free lease is provided without any connection to another taxable supply, the provision of services without charge is deemed as a supply. In this case, VAT should be applied (for non-residential leases) on the open market value of the lease.

Free of charge supply for residential leases which qualify for VAT exemption will not be subject to VAT.

6. I have an annual lease contract with my tenants, however, I am issuing an invoice at the end of each quarter. When I have to declare my tax liability?

Lease contracts are considered as a continuous supply of services. Therefore, the taxable event will be on either the date of issuing the invoice or the date of receiving the payment, whichever comes first.

If the lease contract provides for payment of consideration in set instalments, then the taxable event for each instalment is on the earlier of the payment due date or the date of receiving the payment.

7. I have a contract to supply a property to a customer and I will transfer the ownership in December 2017 following payment of a deposit. I will receive the balance in February 2018. Do I have to charge VAT on receipt of the balance?

No, as the supply has taken place by virtue of transfer of ownership before the effective date of VAT (1 January 2018). VAT will not apply on the supply even the payment is received after 1 January 2018.

8. If part of my activities is exempted (by way of a residential lease), am I entitled to deduct all the VAT incurred on my expenses?

No, you are only entitled to deduct the portion of the VAT incurred related to your taxable supplies.

9. I am a construction company which is selling apartments to financial institutions (banks) with ownership transferring to the bank (and not to the end customer). I receive the consideration in installments. Then, the bank is selling the same apartment to an end customer on a hire/purchase contract. Is my supply qualified to be subject to tax? And what is the taxable value?

As long as the supply involves a transfer of ownership from your company to the recipient (bank) for a consideration, this transaction is qualified to be subject to VAT at the standard rate of 5%.

The consideration received with respect to the supply from the bank will be considered as the taxable amount.

Whilst this transaction is carried out as part of a financing arrangement, it is intended in this case that the construction company permanently transfers ownership to the bank (so the sale cannot be disregarded under the special provisions).

10. I am a builder. I purchase a house from a family, make improvements to it, and sell the house to another purchaser. Do I have to charge VAT on the sale if VAT was not charged to me on the purchase?

Yes, you must apply VAT on all supplies made in the course of your business. The status of the person who sold the house is not relevant to your sale.

